

Defense Chiefs Should Review ABM Treaty Limits, Soviet Says

By R. Jeffrey Smith
Washington Post Service
WASHINGTON — The Soviet Union, in a new attempt to reach agreement on the Reagan administration's Strategic Defense Initiative, has proposed that the superpowers' top military officials confer on the meaning of the 1972 anti-ballistic missile treaty.

Kissinger, Nixon Wary Of Arms Pact

By Jack Nelson
Los Angeles Times Service
WASHINGTON — Richard M. Nixon and Henry A. Kissinger, speaking out jointly for the first time since they left office, have issued a warning to President Ronald Reagan that it would be "a profound mistake" to sign a nuclear arms reduction agreement unless Moscow accepted major changes in the formula for arms control.

H. Taft 4th, to meet with their Soviet counterparts this fall or early next year.

Soviet officials suggested to Mr. Shultz that the two sides would develop a list of "objects" that could be launched into space under the treaty.

U.S. officials have interpreted this as an additional sign that the Soviet Union is willing to allow limited missile defense experiments in space.

Paul H. Nitze, the senior arms control adviser to Mr. Shultz, said Saturday that "the administration agreed to take the Soviet offer under consideration, but there has been no decision on it yet."

Current negotiations on strategic arms are deadlocked because of Soviet concerns about experiments in space under the SDI missile defense research program.

The Soviet Union has generally sought "tight restrictions on SDI space tests, citing an ABM treaty provision that bans either side from providing the 'base' for a defense of its territory against ballistic missile attack. At the same time, the Soviet Union has said that some of the provisions in the ABM treaty governing experimental work need clarification.

But the Reagan administration has said that the provisions are clear-cut and that realistic tests of SDI technologies in space are permitted under a "broad" interpretation of the ABM Treaty.

The interpretation, devised in 1983 by Defense and State Department attorneys, aroused controversy in the Senate and among U.S. allies. It has not yet been used in experiments for the SDI program, although President Ronald Reagan is considering a proposal by Mr. Weinberger to do so.

Mr. Shultz, who has opposed a formal shift to the broad treaty interpretation, has recommended



Protesters joining hands Sunday to form a human chain outside a nuclear plant being built at Wackersdorf, West Germany.

A Year Later: Lessons From Chernobyl

By Malcolm W. Browne
New York Times Service
NEW YORK — In the year since the Chernobyl disaster, nuclear power has undergone its most critical appraisal since the invention of the reactor in 1942. But despite the global anxiety created by the Soviet accident, experts say that it has not caused major technical changes in the nuclear power industry of the West.

Attention to the human factor in nuclear safety.

In the view of Western scientists, inadequate technical design gave the Chernobyl accident a year ago its particular shape but faulty human decisions — stressed in Soviet accounts — actually caused it.

Spokesmen for the U.S. Nuclear Regulatory Commission and the industry said in interviews that the technical lessons of the accident applied almost exclusively to the Soviet Union. A Chernobyl-type accident in the United States is precluded by differences in design, they say, including the requirement that commercial reactors have containment domes.

Nevertheless, the Chernobyl experience has prompted renewed scrutiny of the adequacy of containment shells, which are intended to prevent the emission of radioactive materials in case of an accident. The Chernobyl reactor lacked such a shell.

Groups opposing nuclear power contend that the industry in the United States is resistant to costly changes. Some critics say that Chernobyl is an indictment of nuclear power in general and that it should be phased out altogether.

The Chernobyl explosion and fire, which began as a result of a series of human errors, has taken 31 lives by Soviet accounts.

An untold number of people in the Soviet Union and in the rest of Europe were exposed to elevated cancer risks from fallout, and 133,000 residents of the Chernobyl area of the Ukraine were evacuated from their homes.

Anti-nuclear groups in the Scandinavian nations, West Germany and other countries appear to have gained political strength, slowing the expansion of nuclear power at least temporarily. In the United States, fears inspired by Chernobyl have been cited as factors in the continuing deadlock over opening reactors in New Hampshire and New York.

But despite the mounting efforts of opponents, the nuclear power industry has had a productive year in the United States.

Although no new reactors have been ordered since 1978, previously ordered units have been coming on line and the Nuclear Regulatory Commission licensed them in 1986 at a rate of one every seven weeks, bringing the total to 107.

man said, nuclear reactors in the United States provided 16.6 percent of the electricity generated, and nuclear power production reached 414 billion kilowatt-hours, up 7.9 percent from 1985.

Although the United States, with one-fourth of the world's nuclear-generated electricity, accounts by far for the largest world share, other countries derive a greater part of their national electricity output from reactors. In France, it is 70 percent and in Japan, 25 percent.

One American expert who has examined the implications of Chernobyl is Harold R. Denton, an official with the Nuclear Regulatory Commission.

Mr. Denton, who this month moved to a new job coordinating governmental and public affairs programs for the commission, visited the Chernobyl plant last month with a group from the National Institutes of Health and the Department of Energy.

"There is no direct nexus that can be drawn between their reactors and ours at a technical level," he said. "I would say that it is correct that a Chernobyl-type accident

Credibility Problem In Markets

U.S. Allies Admit
They Must Back
Words With Acts

Compiled by Our Staff From Dispatches
KASHIKOJIMA, Japan — Four trade ministers ended a week-end meeting by conceding that their governments were losing credibility in world financial markets and would not regain it until they backed their promises on trade and currencies with action.

"Until today we have announced

South Korea will buy \$2.62 billion of U.S. goods. Page 9.

policies, but when it came to action required it was done in a way that satisfied nobody," said Hajime Tamura, Japan's trade minister, after ending talks here with his counterparts from the United States, Canada and the 12-nation European Community.

"From now on, if a government comes up with a certain policy, it must be followed by action," Mr. Tamura said Sunday at a news conference, where he read a joint statement from the four countries.

Mr. Tamura's remarks were made just as the U.S. Congress is to begin debate on a sweeping trade bill aimed at reducing the nation's global trade deficit, which amounted to \$170 billion in 1986.

An amendment to the bill, sponsored by Representative Richard A. Gephardt, Democrat of Missouri, would require the president to impose import restrictions on countries with lopsided trade balances.

The four ministers at the talks represented nations accounting for 60 percent of the world's trade. Reading from an official summary, Mr. Tamura said that the United States, the EC, Canada and Japan had agreed that:

• Currency stability is essential, but currency movements alone will not correct Japan's trade deficit with the United States, which reached \$58 billion last year, nor with the EC, which totaled \$18 billion. Last week, the dollar plunged below 140 yen for the first time since World War II despite an agreement by the Group of Seven

1988 Race: Tears and Passion

U.S. Presidential Candidates Compete to Display a 'Soul'

By Maureen Dowd
New York Times Service
WASHINGTON — The presidential contenders all have image problems.

Bob Dole is seen by some as too mean, Gary Hart as too cold. Vice President George Bush is criticized as a shallow aristocrat and Michael S. Dukakis as a reserved technocrat. Others, like Jack F. Kemp, Richard A. Gephardt and Albert Gore Jr., come across to many as a bit artificial.

But now the candidates for 1988 are adding earth tones to their public portraits as they compete in an era in which an air of vulnerability is valued. They are showing their emotions, talking about their feelings, disclosing intimate details about their past.

Everywhere you look, the men who would be president are, as the poet Rod McKuen once put it, "listening to the war."

It is an ironic and remarkable twist on elections past, when a display of emotion was often construed as a sign of instability or weakness. Now it is plain that candidates think such displays of emotion will not hurt and might even help their chances.

"This has become a soul race," said Geoffrey Gertz, a Democratic poll taker, "a race to show who has a soul."

"This year people want competence and they want passion," said Robert Shrum, a media consultant. "All the candidates have pretty good head credentials. Now they're trying to show they have a heart."

While much of the campaign imagery in the 1984 presidential race between Ronald Reagan and Walter F. Mondale dealt with the issue

of which man had the more masculine leadership style, this time Mr. Gertz suggests that a central motif in the race will be "mechanical versus warm, technocrat versus soul."

"It struck me that in 1972, Ed Muskie shed a tear and it cost him the nomination," said Robert

Squier, a Democratic consultant.

"Now, Gary Hart sheds a tear and it may get him the nomination."

As a Democratic candidate for president 15 years ago, Edmund S. Muskie irretrievably damaged his chances when he broke down and

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ISRAELIS REMEMBER THE HOLOCAUST — Motorists stopped their cars early Sunday morning on a street in Jerusalem to commemorate Holocaust Memorial Day. The two minutes of silence, announced by sirens, was observed throughout Israel.

Economics of a Pint Killing Ireland's Pubs

By Francis X. Clines
New York Times Service
DROMED, Ireland — By closing time, with the stars shining coldly above the dark road to Sligo, Jack McNally was lingering over a cup of coffee at one end of the bar in his warm, inviting pub. Down at the other end, his wife, Millie, saw to drawing the final pint of stout for the one regular customer in the place, a quiet man named T.P. Fughnan.

It was the overly gentle sort of night that Mr. McNally and the rest of Ireland's 9,000 pub owners are worried about, an occasion of dwindling thirst in the nation's public houses.

Under the burden of some of the highest bar drinkers' taxes in Europe, consumption of beer and spirits has fallen a total of 14 percent in Ireland since 1979 and more than half of the nation's pubs did not make a profit last year, according to the Vintners Federation of Ireland.

"I have never seen things so bad," said Mr. McNally, who first went to work in the family pub in County Leitrim 45 years ago. Then it was a snug fit in a long thatched-roof cottage where the farmers gathered in the evenings.

"A few regulars trickle through, but their pockets are tired," he said, describing the state of his business. It carries loans from the last boom time, more than a decade ago, when he rebuilt the pub as a handsome family gathering place.

Because of tax differences, the price of a pint of Guinness — about 1.35 pounds, or \$2, in Ireland — is 75 cents cheaper in Northern Ireland, 15 miles (24 kilometers) away. A bottle of whiskey is at least \$3 cheaper in Ulster.

For years, shoppers from Ireland went by the busloads to the North each day for alcohol and other consumer items. Two weeks ago, howev-

er, the republic's newly elected government cracked down, announcing tight limitations on cross-border purchasing, in hopes of propping up local commerce.

"If hard times ever meant hard drinking, current statistics, rooted in the deep national recession, do not bear out the stereotype. On the latest list of alcohol-consuming nations compiled by the European Community, Ireland is 18th, on a per capita basis, and slipping. It is

well behind the leaders, Luxembourg and France, and two spots behind the United States.

"The old notion of the heavy Irish drinker does not stand up to scrutiny," said Tadg O'Sullivan, chief executive of the Vintners Federation in Dublin. He is busy tracking what he described as a near frantic turnover in pub ownership.

"I don't know if the Irish deserve a bad name for drink," said Mr. McNally, sipping coffee. "I have a feeling they can be exceedingly fond of it, but maybe it's just that some don't know how to drink."

The Irish drinker is hardly in a position to mount a two-fronted challenge to settle such questions, since the price of drinks has been rising along with taxation and unemployment even as income is slipping, particularly in a rural economy such as Dromed's.

At midnight, in the quiet of the pub, Mr. McNally pointed out the economics of T.P. Fughnan's nightcap pint of Guinness stout. He paid the equivalent of \$2. Of that, the government gets \$1.24 in excise and value-added taxes, Mr. McNally said. After paying the distributor, the publican will keep 55 cents, of which 25 percent will be net profit.

This is less than half the margin needed for a successful bar in the United States and Britain, he said, and too little on which to survive. Only

See PUB, Page 6

Rebel Killings, Bombing by Colombo Widen Divide in Sri Lanka Civil War

By Richard M. Weintraub
Washington Post Service

COLOMBO, Sri Lanka — A series of terrorist attacks and a government decision to bomb rebel targets in civilian areas have widened the gulf that separates the Sinhalese and Tamil communities and overwhelmed any talk of peace.

Almost 400 people have been killed and many wounded in recent attacks. It is a rapid turnaround from two weeks ago, when the government announced a cease-fire

and said that if it were successful, further steps toward negotiations in the four-year ethnic conflict might be possible.

Then, in quick succession, gunmen stopped five trucks and buses on an isolated stretch of highway in central Sri Lanka and killed 126 people; other attacks on army bases left scores of soldiers dead.

A bombing went off Tuesday in central Colombo, killing at least 106 people, and the government began what it says is an all-out air attack to destroy Tamil guerrilla camps, most of which are in congested civilian areas of the Jaffna Peninsula on the island's north coast.

More than 5,000 people have been killed in the war that pits Tamil guerrillas seeking a separate homeland against the Sinhalese army and police forces of the government.

The violence broke out in 1983 when Tamil guerrillas killed 13 soldiers in the north. Hundreds of Tamils were killed in subsequent rioting in Colombo. Many of those killed have been civilians who were caught up in the violence or were targets of terror campaigns by one side or the other.

Sri Lanka would not seem to be a place where such violence would occur. Its literacy rate is among the highest in the developing world, and its economy had been showing signs of solid growth.

But Sri Lanka carries a burden of history of hundreds of years during which the two groups of people fought for territory and ruled themselves within fairly well defined areas where their cultures and languages were preserved.

Colonization by the Portuguese, See TAMIL, Page 6

President Threatens to Delay Voting

KARANDENIYA, Sri Lanka — President Junius R. Jayawardene said Sunday that unless terrorism by Tamil separatists was quelled by 1989 he would not hold a general election scheduled then and would instead keep his government in power.

The announcement was the 80-year-old Mr. Jayawardene's first public statement on the election, in which he is barred from running for a third term.

"If we are unable to solve the problem of terrorism within the next two years, I will not hold a general election but a referendum to extend the life of the government to wipe out Tamil terrorism," he said.

Mr. Jayawardene was elected in 1977 and won a second six-year term in 1982. A referendum gave him the right to extend Parliament until 1989 because of the unrest.

Arafat Abandons Egypt To Lead Reunited PLO

ALGIERS — The Palestine National Council, the unofficial Palestinian parliament in exile, ended a stormy session Sunday with the Palestine Liberation Organization reunited under Yasser Arafat after forcing him to bow to demands that he give up his special relationship with the Egyptian leader, Hosni Mubarak.

Mr. Arafat survived as PLO chairman despite concerted efforts by President Hafiz al-Assad of Syria and Syrian-led radicals to oust him, but abandoned an informal agreement that would have allowed him to maintain his relationship with Mr. Mubarak in violation of the Arab boycott imposed after Egypt signed its 1979 peace agreement with Israel.

In exchange for continuing the relationship with Egypt, Mr. Arafat had agreed to drop all attempts to negotiate a future peace settlement under a Jordanian umbrella.

As the 18th meeting of the council came to a close amid prolonged applause, Mr. Arafat and two of his leading rivals, Nayef Hawatmeh and Georges Habash, appeared hand-in-hand and smiling for the first time since they split four years ago.

The bitter dissension between hard-liners and Arafat-led moderates that was aired during the five-day session suggested, however, that the PLO's newfound unity was fragile.

Mr. Mubarak withdrew his observer delegation from the council to protest the radicals' maneuvering. He had warned that their position could lead to a total break in all PLO-Egyptian relations.

A political resolution adopted

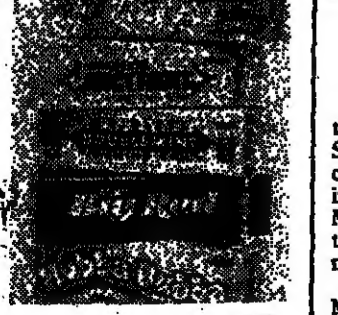
See PLO, Page 6

Kiosk Brazil Official Offers to Resign

SAO PAULO (Reuters) — Finance Minister Dilson Fumaro, the main architect of Brazil's economic policy, said Sunday that he had offered his resignation to President José Sarney.

There had been speculation for months that Mr. Fumaro would leave, since the failure late last year of his price-freeze plan.

The 53-year-old minister said at his home in Sao Paulo that he presented his resignation to Mr. Sarney on Friday.



Are five sticks of gum for 25 cents "poor value for consumers?" Wrigley's, trying to lure more American gum chewers, doesn't think so. Page 9.

GENERAL NEWS

South Korea's new opposition party starts in a kind of "political vacuum." Page 2.

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United rejected a \$4.5 billion buyout by its pilots. Page 9.

In Seoul, a 'Political Vacuum'

Koreans Wary About New Party, Old Rivalries and Chun

By Patrick Smith

International Herald Tribune

SEOUL — South Korea's fractured opposition inaugurates a new political party this week, in the face of a dramatic loss of popular sympathy and an increasing sense of disillusionment among members and supporters, according to political analysts and opposition sources.

The breakdown of the New Korea Democratic Party earlier this month, and the confrontational strategy expected of the emerging Party for Reunification and Democracy, have obliterated any middle ground for those opposed to President Chun Doo Hwa, these observers said.

The new party is to be led by Kim Dae Jung and Kim Young Sam, the nation's most prominent dissidents. Its inaugural convention is scheduled for Friday.

At the same time, Mr. Chun's decision to suspend constitutional changes at least until late next year has further distanced him from an already alienated public, many independent observers said.

Four days after a long-simmering feud in the opposition developed into a full-blown split, Mr. Chun announced that talks on constitutional amendments would be deferred until after the Olympic Games are held in Seoul in September 1988. The successor to Mr. Chun, whose term in office expires in February, is to be chosen according to current constitutional rules.

Even among his supporters, the president is seen to have acted less in the interest of national stability, as he has contended, than for the political benefit of the ruling Democratic Justice Party.

As a result of these developments, the nation has entered a kind of "political vacuum," as one commentator put it, in which the future appears more precarious than at any time since the New Korea Democrats began challenging Mr. Chun two years ago.

Among many South Koreans there is mounting concern that the polarization of the political scene has increased chances of military intervention in the remaining months of Mr. Chun's term.

"We're now moving into a very unstable period," said Kim Jin Hyun, editorial director of Dong-A Ilbo, a mass-circulation daily newspaper. "If this situation is seriously mismanaged, we can't rule out a move by the military."

Within the regrouped opposition and among many middle-class Koreans, both Kim Dae Jung and Kim Young Sam are widely blamed for precipitating the collapse of the New Korea Democrats, who were attempting to negotiate constitutional amendments that would provide for a directly elected president.

The party leaders were reported to have objected to compromise proposals advanced by opposition members of the National Assembly that would have incorporated the ruling party's formula for a parliamentary system headed by an indirectly elected president.

Those who advanced these proposals are now accused of having accepted bribes from the government in exchange for their cooperation.

There is a growing belief all along the political spectrum that in relying on traditional loyalties for their backing, "the two Kims" depart little from the "personality politics" long practiced by a succession of Korean leaders.

Reflecting this, rivalries between the two factions that date from the late 1950s are re-emerging, party sources said.

The new Party for Reunification and Democracy plans to draw most of its support from grassroots labor, religious and student groups, many of which had objected to constitutional talks between the New Korea Democrats and the ruling party.

Even opposition leaders acknowledge, however, that their success in regaining the confidence of the nation's large middle class depends less on their political posture

'If this situation is seriously mismanaged, we can't rule out a move by the military.'

— Kim Jin Hyun, editorial director of Dong-A Ilbo newspaper

than on miscalculations that Mr. Chun's supporters may make.

The Party for Reunification and Democracy hopes to control about 65 of the 90 assembly seats formerly held by New Korea Democrats. For the moment, party officials said, its platform consists solely of a demand that constitutional talks be reopened.

"They're looking for a scandal, another mishap in the ruling clique," a Western diplomat said. "Left to its own devices, the opposition doesn't have very much to offer at this point."

Since the split in the opposition, Mr. Chun has sought to regain the

political momentum he lost in January with the death by torture of a detained student. That setback followed several months of advances against the opposition.

Among other things, the government has hinted that it will cautiously liberalize election laws, ease press restrictions and start a long-promised program to increase the autonomy of local, county and provincial administrations.

These measures are among those the governing party previously insisted were essential to the success of its plan for a parliamentary system. Accordingly, Mr. Chun's apparent intention to limit the measures is seen widely as confirmation that he may never have meant to accept changes to the constitution.

Skepticism with regard to the president's political conduct has also been heightened by the government's continuing effort to thwart the Party for Reunification and Democracy's development by bringing criminal charges against many of its members.

Opposition leaders also say the government is supporting groups of youths that have attacked 19 local party chapters in the past two weeks.

It now appears likely that Mr. Chun's party will designate as his successor Roh Tae Woo, the party chairman and a close associate of the president, at the party's convention June 10.

Far from stabilizing the political environment, this is likely to be seen as little more than a "changing of the guard among military bureaucrats," one foreign analyst said.

"It certainly won't be accepted as the peaceful transfer of power that Chun promised to deliver."

Malaysia Leader Considers Cabinet Purge

By Michael Richardson

International Herald Tribune

KUALA LUMPUR, Malaysia

Prime Minister Mahathir bin Mohamad, shaken by a nearly successful challenge to his party leadership, is considering whether to remove his rivals from their government posts or offer reconciliation, analysts said Sunday.

They said that if he purged his cabinet it would shatter the division in the party that nearly caused his downfall after six years in office.

In addition, a purge would reduce the number of experienced Malay politicians in the multiracial

government, which also includes Chinese, Indians and representatives of other ethnic groups.

But the analysts said that Mr. Mahathir, who has frequently been intolerant of criticism in the past, was more likely to take the view that disloyalty should be punished.

He would probably argue that retention of leading dissidents in positions of influence might enable them to undermine his policies and mount another attack closer to the next general elections, due in 1991, the analysts added.

The prime minister's unsuccessful challenger, Razaleigh Hamzah,

has pointedly not offered to resign his post as trade and industry minister, despite accusing Mr. Mahathir of being responsible for economic mismanagement, autocratic rule and tolerating corruption in high places.

On Friday, Mr. Mahathir defeated Mr. Hamzah on a 761-718 vote for president of the United Malays National Organization, known as UMNO, and other key party offices.

The organization has 13 seats in the cabinet and is the dominant partner in the multiracial coalition that controls the federal government in Kuala Lumpur and most of the state administrations. Five

UMNO ministers campaigned against Mr. Mahathir.

One diplomat said the prime minister had three options. One would be to purge from the government those who openly opposed him. Another would be to remove some critics but retain others in the hope that this would cause dissension among his rivals. And a third would be to offer to continue a partnership based on power-sharing.

The results of the voting show that Mr. Mahathir controls enough of the UMNO hierarchy to take a firm stand.

While only just beating Mr. Hamzah, the prime minister's supporters gained the post of deputy president, two of the three vice presidential spots and at least 16 of the 25 seats on the party's Supreme Council.

Marisa Yusoff, a Supreme Council member who questioned the fairness of the counting shortly after the results were announced, said later she was satisfied that the election had been fair.

Mr. Razaleigh said that he was ready to pledge his support for the party leadership provided there was not a "witch hunt."

He noted that closeness of the vote showed widespread dissatisfaction with Mr. Mahathir.

Several key officials openly opposed Mr. Mahathir in the election, campaign. They included Foreign Minister Rais Yatim; Defense Minister Abdullah Badawi; Welfare Minister Shahrir Samad; the minister in the Prime Minister's Department, Ajib Ahmad; and several deputy ministers.

4 Are Killed In Raids by South Africa In Zambia

By William Claiborne

Washington Post Service

LIVINGSTONE, Zambia

Helicopter-borne South African Army commandos raided alleged African National Congress guerrilla hideouts Saturday, killing four persons and blowing up two houses before fleeing on motorcycles.

The South African forces apparently flew in from the Caprivi Strip in northern Namibia, 30 miles (48 kilometers) from Livingstone. The South African Defense Force in Pretoria said that the raids were a "reconnaissance mission" to investigate a guerrilla infiltration route from Zambia to South Africa by way of Botswana.

Zambian officials and witnesses said, however, that the attacks were made on civilian dwellings. They said the victims were Zambian citizens who had no connection with the African National Congress.

Authorities in Livingstone said that uniformed gunmen approached two security guards at an office building in Livingstone and demanded entry, apparently in search of suspected guerrillas.

Zambian officials said that the gunmen opened fire with automatic rifles when the guards tried to sound an alarm by blowing whistles. Both guards were killed.

Officials said that the gunmen then went by motorcycle to the suburb of Dambwa. An ANC official in Livingstone said that a house in Dambwa once had been occupied by members of the congress.

He said the house recently had been vacated and Zambian civilians had moved in. A Zambian who lives across the street from the house said that the house was not occupied by South African exiles.

The roof of the one-story house was blown away and several walls collapsed in a heap of rubble.

The South African Army headquarters in Pretoria said that three terrorists were killed in the Dambwa attack. Zambian officials said two civilians were killed and one was seriously wounded.

The army headquarters in Pretoria said that another building in the suburb, allegedly used to store weapons, was destroyed.

Hundreds of residents surrounded a group of white foreign journalists who visited Dambwa on Saturday, angrily accusing them of being South African spies. Police escorted the journalists away.

An ANC official from Lusaka said that intelligence reports had warned of an imminent attack on Livingstone by South African commandos. He said ANC buildings therefore had been evacuated.

He said that additional South African commando raids were expected in Zimbabwe.

The attack Saturday followed recent statements by the South African foreign minister, P. W. Botha, that guerrillas were assembling in Zambia and Zimbabwe. He said they planned to infiltrate through Botswana into South Africa to disrupt the whites-only parliamentary election May 6.

Raid Condemned by U.S.

The United States condemned the South African raid, Reuters reported Sunday from Washington. "We condemn the reported attack and express our deepest condolences to the families of the victims," said Pete Martinez, a State Department spokesman.

WORLD BRIEFS

Elections Reaffirm Nakasone Support

TOKYO (AP) — Preliminary election results Monday indicated that Prime Minister Yasuhiro Nakasone had weathered a test of his political popularity, with conservative local incumbents retaining their offices.

Most of the incumbent candidates who won in elections for mayors, town officials and assemblies on Sunday were independents supported by conservative and centrist parties, including Mr. Nakasone's Liberal Democratic Party. Forty-one conservative and centrist independents and a candidate from the Liberal Democratic Party were declared winners in early results.

The elections were seen as a test of Mr. Nakasone's ability to buoy his popularity after his party suffered a setback in the first round of elections two weeks ago.

Philippine Alert Follows Coup Rumor

MANILA (UPI) — The military and police have been placed on what the Philippine authorities termed a "pre-emptive" full alert following what one police official called unverified reports of a planned attempt to overthrow President Corason C. Aquino, newspapers reported Sunday.

Manila's police chief, Brigadier General Alexander Aguirre, was quoted as saying that the plot involved disgruntled soldiers and civilians loyal to former President Ferdinand E. Marcos. In a radio message to police districts Saturday, General Aguirre said the coup was to begin with attacks on police and army headquarters in Manila.

Newspapers said the plotters were believed to be members of a military fraternity called The Guardians, whose members have been implicated in at least three other plots to overthrow Mr. Aquino.

Paraguay Politician Ends 5-Year Exile

ASUNCION, Paraguay (Reuters) — Domingo Laino, an opposition leader, has returned home after five years in exile for "subversive activities." His return came less than a month after the government lifted a state of siege in the capital.

Mr. Laino, the vice president of the outlawed Authentic Liberal Radical party, was greeted at Asuncion airport upon his return from Argentina by about 1,000 supporters and was given a police escort to his home, witnesses said. He faces charges of violating public peace. He had failed in five earlier attempts to return.

Foreign diplomats said President Alfredo Stroessner was relaxing his authoritarian rule by lifting the 40-year state of siege and allowing Mr. Laino to return ahead of presidential elections scheduled for February 1988. General Stroessner, 74, will be seeking an eighth successive term in office.

Top Soviet Aide Praises Hungary

BUDAPEST (Reuters) — The Kremlin's top ideologue, Yegor I. Ligachev, has held lengthy, "substantive" talks with Janos Kadar, the Hungarian leader, and said later that Hungary was setting a useful example for the Soviet Union.

Mr. Ligachev, widely seen as the No. 2 man to the Soviet leader, Mikhail S. Gorbachev, said Saturday at the end of his three-day trip that the visit to examine Hungary's banking, finance, pricing and monetary policies had been a "very instructive and very successful."

He also said that Hungary's electoral system, which started allowing more than one candidate for parliamentary elections in 1985, would be tried out at a local level in the Soviet Union in June.

IRA Blast Kills Judge, Wife in Ulster

BELFAST (UPI) — A car bomb planted by the guerrilla Irish Republican Army killed Northern Ireland's second-highest ranking judge and his wife on Saturday in what the IRA said was an "execution."

The IRA, which is fighting to end British control of the province and to unite it with the Irish Republic, claimed responsibility for the explosion that killed Lord Justice Maurice Gibson, 73, and his wife, Cecily.

The police said Saturday that the bomb was planted in a car parked on the main road from Belfast to Dublin, near Northern Ireland's border with the republic. The judge was the subject of controversy in 1984 after he acquitted three policemen accused of killing an unarmed IRA suspect.

For the Record

Two Palestinian injured firebombs Saturday at cars in the Israeli-occupied Gaza Strip, hurtling two Israelis and prompting Jewish settlers to drive to the area in a show of force, the Israeli Army said. (UPI)

The visit of President Richard von Weizsäcker of West Germany to the Soviet Union, scheduled for next month, has been postponed at Moscow's request, West German government sources said Sunday. (Reuters)

TRAVEL UPDATE

Errors at Chicago Airport Rose in '86

WASHINGTON (UPI) — Operational errors by air traffic controllers increased 65 percent at O'Hare Airport in Chicago in 1986, and nearly led to disasters on several occasions, according to a U.S. congressional report released Sunday.

A House of Representatives subcommittee said that there were 23 errors in 1986, up from 14 in 1985. The report recommended that the Federal Aviation Administration immediately investigate the problems at the world's busiest airport.

The errors, which were mistakes in maintaining safe distances between aircraft, included several instances in which airlines carrying hundreds of passengers might have collided, the report said.

French air traffic is expected to be slightly disrupted Monday through Thursday by two-hour work stoppages by controllers. Some domestic flights have been canceled because of the strikes, which unions said would be from 6:30 to 8:30 A.M. daily. (APF)

This Week's Holidays

Banking hours and government services will be closed or curtailed in the following countries this week because of national and religious holidays:

MONDAY: Afghanistan.

WEDNESDAY: Japan.

THURSDAY: Madagascar, Netherlands, Netherlands Antilles.

FRIDAY: Afghanistan, Albania, Algeria, Andorra, Angola, Argentina, Australia, Bangladesh, Belgium, Bolivia, Brazil, Bulgaria, Burma, Cameroon, Central African Republic, Chad, Chile, China, Colombia, Congo, Costa Rica, Cuba, Cyprus, Czechoslovakia, Dominican Republic, East Germany, Ecuador, Egypt, El Salvador, Ethiopia, Finland, France, Gabon, Gibraltar, Greece, Grenada, Guatemala, Guinea, Kenya, Lebanon, Liechtenstein, Luxembourg, Macao, Madagascar, Malaysia, Mali, Netherlands Antilles, New Caledonia, Nicaragua, Mongolia, Morocco, Mozambique, Norway, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Sri Lanka, Suriname, Sweden, Switzerland, Syria, Tanzania, Thailand, Trinidad and Tobago, Uruguay, Vatican City, Venezuela, West Germany, Yugoslavia, Zaire.

SATURDAY: Bhutan, Bulgaria, North Yemen, Romania, Soviet Union, Yugoslavia.

SUNDAY: Israel.

Source: Morgan Guaranty Trust Co.

NIXON: Former President, Kissinger Warn Reagan on Arms-Pact Formula

(Continued from Page 1)

tions were met. Mr. Nixon and Mr. Kissinger said that Mr. Reagan had a historic opportunity to promote world peace and to take a major step forward in American-Soviet relations if he signed "the right agreement."

"Every president has an understandable desire to assure his place in history as a peacemaker," Mr. Nixon and Mr. Kissinger said. "But he must always remember that, however he may be hailed in today's headlines, the judgment of tomorrow's history would severely condemn a false peace."

Skepticism about elements of the Reagan administration's arms control effort already had been expressed by such figures as the Senate majority leader, Robert C. Byrd, Democrat of West Virginia; the Senate minority leader, Bob Dole, Republican of Kansas; the Senate Armed Services Committee chairman, Sam Nunn, Democrat of Georgia; and the House Armed

Services Committee chairman, Les Aspin, Democrat of Wisconsin.

Additionally, General Bernard D. Rogers, the NATO commander, has expressed serious doubts about a companion proposal by Moscow to eliminate all short-range nuclear missiles, which are those with ranges of 300 to 1,000 miles.

Since the agreement being negotiated provides for phasing out the medium-range missiles over four or five years, Mr. Nixon and Mr. Kissinger said that the pact should link the final phase of withdrawals to the elimination "of the huge Soviet conventional superiority."

Unless negotiations to that end begin immediately and are conducted before the final phase of missile withdrawal begins, they warned, removing medium-range and short-range missiles "would simply make Europe safe for conventional war."

"If we strike the wrong kind of deal," they wrote, "we could create the most profound crisis of the

NATO alliance in its 40-year history — an alliance sustained by seven administrations of both parties."

Mr. Nixon and Mr. Kissinger argued that if both medium-range and short-range missiles were eliminated, the only remaining nuclear weapons would be those carried by aircraft and the very short-range nuclear artillery shells and similar devices classified as battlefield weapons.

Reliance on these weapons for deterrence against Moscow's massive nonnuclear forces "would confine the use of nuclear weapons in effect to German soil," they said.

Faced with that prospect, they said, Germany would give in to "the siren song of demilitarization on the one hand or the acquisition of nuclear weapons on the other."

At the White House, an official said that while "there's still a bumpy road ahead," chances were good that a summit meeting would be scheduled for October or November in Washington.

Mr. Nixon and Mr. Kissinger urged that any summit conference convened to sign a missile agreement also deal with the major political issues separating the two superpowers, including Soviet occupation of Afghanistan, Soviet arms shipments to Nicaragua and Soviet-sponsored subversion in Central America.

Coming from two such prominent fellow Republicans with unique credentials in foreign affairs, this open criticism of the Reagan administration's arms control

administration's arms control goals and the call for U.S. insistence on what would be major new concessions by the Soviet Union to Mr. Reagan and have a substantial impact on the debate over a new agreement.

A White House spokesman, Dan Howard, said Saturday that the administration would take Mr. Nixon's and Mr. Kissinger's comments into consideration.

"We welcome comments from all sides," he said.

Mr. Nixon and Mr. Kissinger, while controversial figures even in their own party, are nonetheless two of the nation's most experienced and knowledgeable figures in foreign policy.

Authors of the era of détente in the mid-1970s, Mr. Nixon met with Soviet leaders three times during his presidency from 1969 to 1974.

Mr. Kissinger, who also served as secretary of state under President Gerald R. Ford, participated in five such summit meetings.

Allied Support Needed

Richard N. Perle, assistant secretary of defense for international security policy, was quoted Sunday as saying he thought the United States could accept a Soviet proposal to eliminate short-range nuclear missiles, but only if it received allied support, Reuters reported from Bonn.

Mr. Perle told the West German magazine Der Spiegel that he expected Washington to respond to the Soviet offer during the latest round of arms talks in Geneva, which resumed last week.

Chirac, Thatcher Agree

Prime Minister Jacques Chirac of France said Sunday he and Prime Minister Margaret Thatcher of Britain agreed that nuclear missiles should remain in Western Europe as long as the Soviet Union had superior conventional and chemical weapons. The Associated Press reported from London.

Ex-French Aide Sends Minister Erotic Etching

Reuters

PARIS — France's former culture minister, Jack Lang, said Sunday that he had sent Interior Minister Charles Pasqua a copy of an erotic etching by Pablo Picasso, advising him to place it in a pornography exhibition in Paris.

Mr. Lang, protesting Mr. Pasqua's banning last month of some pornographic publications, said the unnamed etching, vividly portraying the sexual act, was a work of art.

Mr. Pasqua, in defense of his crackdown on pornography, is to open an exhibition on Monday portraying what the conservative minister says is the unacceptable face of literature.

Mr. Lang said he had offered Mr. Pasqua the complete works of the sexually frank 16th-century author François Rabelais.

"Although I regret that in Rabelais's country the government is at the moment an enemy of life's pleasures," he said, "I am grateful to you for being able to make us laugh so often."

Assad Is Promised More Arms Aid By Gorbachev

Compiled by Our Staff From Dispatches

MOSCOW — President Hafez al-Assad of Syria has left Moscow after three days of talks during which Mikhail S. Gorbachev promised additional military aid for Syria, Tass reported.

Mr. Assad, who left Saturday, was the guest at a Kremlin dinner Friday night during which Mr. Gorbachev promised to continue military aid. Mr. Gorbachev also accepted an invitation to visit Syria.

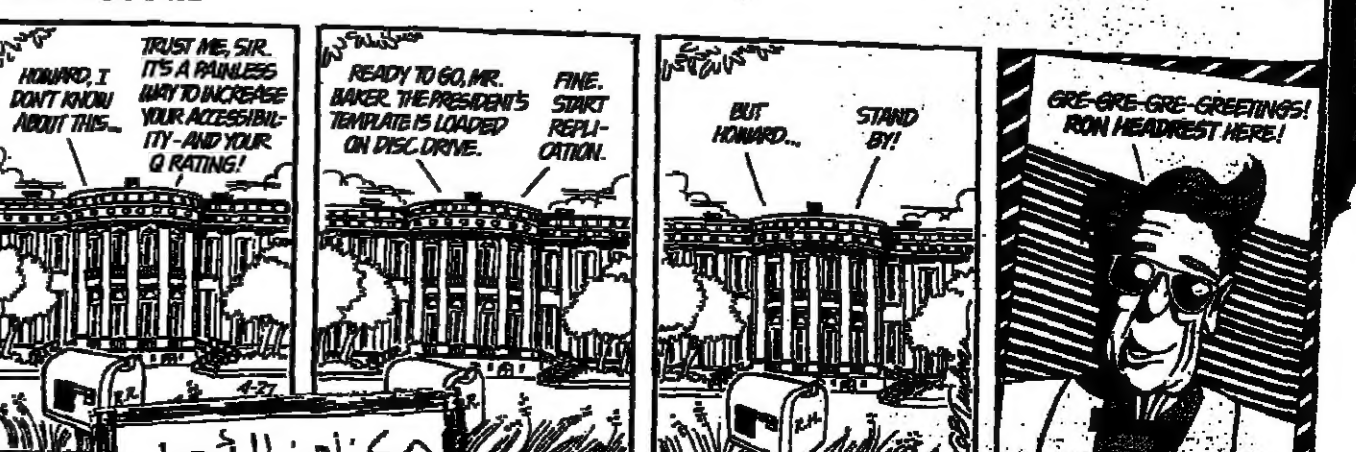
Mr. Gorbachev recommended that an international conference on the Middle East be held. He said that the Soviet Union could establish relations with Israel only as part of a general Middle East settlement.

"It should be clear," Mr. Gorbachev said, "that progress in our relations with Israel is only conceivable in the context of a settlement of the Middle East crisis."

"Taking the question out of its context is just not possible," he said.

(AP, AFP, UPI)

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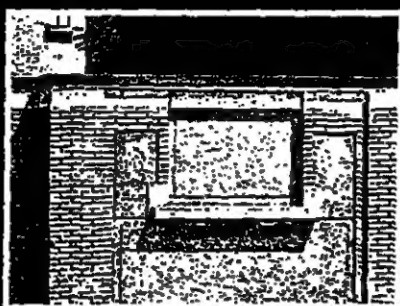
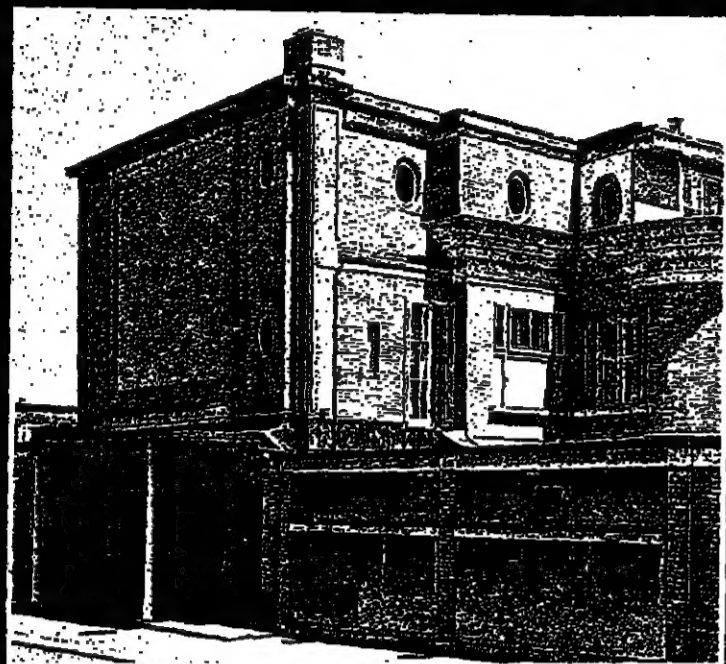
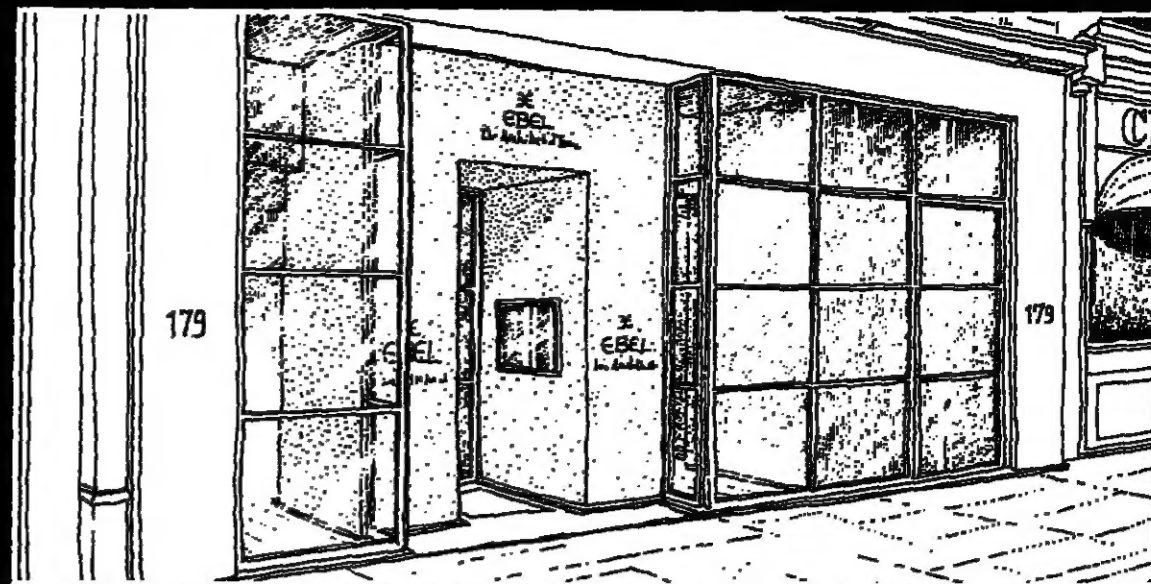
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Ebel congratulates the Herald Tribune on its 100th anniversary.

The (Architects of Time) built an international reputation through a close association to the world of sports. Whether on the tennis courts of the Davis Cup or the golf courses of the Crans European Masters, Ebel is involved with prestigious international events as well as the finest athletes in their respective sports, such as Stephan Edberg, Boris Becker, Yannick Noah, Greg Norman, Bernhard Langer and Sandy Lyle. The Leonard Bernstein concerts organized in 1986 in commemoration of Ebel's 75th anniversary were extremely successful and brought Ebel closer to the cultural world. In 1987, Ebel will give particular meaning to the slogan (The Architects of Time) and celebrates the 100th anniversary of the birth of yet another international vocation, that of the architect Charles-Edouard Jeanneret, better known as (Le Corbusier). Ebel will open its Public Relations Center at Villa Turque, one of Le Corbusier's



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Chairman of Ebel, golfer, connoisseur of music, of film, avant-garde, a man of international vocation.

original designs, located in the city of his birth, La Chaux-de-Fonds, Switzerland.

Architecture will again play a major part in Ebel's plans with the opening of two boutiques, 2 Place Vendôme, Paris and 179 New Bond Street, in London. These boutiques will feature a full complement of each of the Ebel collections, the (Sports Line), (Beluga) as well as the newest variation, (1911). Exclusive to the Ebel boutiques will be François Herail's latest jewelry collections.



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U.S. Military Reportedly Helped With Contra Aid

By Fox Butterfield

WASHINGTON — The congressional committees investigating the Iran-contra affair have found evidence that U.S. military personnel in Central America actively helped the resupply operation for the Nicaraguan rebels despite a congressional ban on such aid, according to an official familiar with the investigation.

The assistance included refueling planes used by the private supply program and storing weapons and ammunition in U.S. military warehouses, the investigator said.

There was no indication, however, that the officers and enlisted men who provided the aid did so under orders from Washington. Instead, they reportedly acted out of a widely held belief among U.S. military and government personnel in the region that they were carrying out a policy established by President Ronald Reagan.

In addition, lawmakers now have traced the origin and use of almost all the money involved in the covert operations, except for a \$10 million donation reportedly made by Sultan Mada Hassan al-Bolkiah of Brunei, according to an official knowledgeable about the investigation.

The investigators have concluded that the sultan's money may have been accidentally deposited in the wrong Swiss bank account. This apparently was due to an error made in transmitting the account number by Elliott Abrams, assistant secretary of state for inter-American affairs.

Mr. Abrams has acknowledged that he was given the number of the secret Swiss account by Lieutenant Colonel Oliver L. North, the former National Security Council staff member.

A senator said Friday that the amount of money diverted from the Iran arms sales to the program supplying the Nicaraguan rebels, known as contras, was in the millions of dollars. But the senator said it was probably less than previous estimates, which ranged from \$8 million to \$30 million.

The new evidence of involvement of U.S. military personnel in helping the covert supply operation came from interviews that congressional investigators had with U.S. officers and enlisted men in Central America during the last few weeks, a legislator said.

During the interviews, the soldiers indicated that they believed they were carrying out Mr. Reagan's policy.

A sergeant related that he had regularly provided aviation fuel to planes used by the private resupply network when they landed at the airstrip where he was stationed.

"I don't ask whose plane it is," the sergeant said. "My job is to fill it up and get it out again."

Hanoi Assails Protest of Japan Links

Reuters

BANGKOK — Vietnam criticized non-Communist countries of Southeast Asia on Sunday for protesting to Tokyo over Japanese commercial activity in Vietnam.

The Vietnamese Communist Party daily newspaper Nhan Dan said the protest, delivered in Tokyo on Thursday by ambassadors from the Association of South East Asian Nations, would frustrate efforts to bring peace to Cambodia.

The ambassadors said the aid and credits from a Japanese trading company, Nishio Iwai Corp., undermined international efforts to isolate Vietnam because of its military presence in Cambodia.

The six members of ASEAN are Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

Hanoi has about 140,000 troops in Cambodia governing the area there in 1979. ASEAN and most Western nations seek withdrawal of the troops and installation of a democratically elected government in Cambodia.

A Thai Foreign Ministry spokesman said Friday that his government believed six more Japanese companies were ready to extend credit and aid to Vietnam.

Tokyo has said activities by Japanese companies have nothing to do with the government.

AMERICAN TOPICS

Oil States Are Hoping The Worst Is Over

After three years of steepening decline, most experts say the worst is over for the oil-producing states of Texas, Oklahoma and Louisiana. The New York Times reports. Some say the foundation for a modest recovery is taking shape.

Experts say any recovery will be gradual, rather than a return to the boom of the early 1980s. It will have as much to do with the national economy as with oil prices. And the areas most likely to recover are those with the least emphasis on oil.

Texas, the most economically diverse of the three states, has the best prospects. Oklahoma seems further behind. Louisiana, the most heavily dependent on oil, has the fewest positive signs and an unemployment rate of 14.3 percent, compared with 7.9 percent for Texas.

Short Takes

A bank manager absconded with nearly \$200,000 and left behind a list of pros and cons of his deed, the Federal Bureau of Investigation said. It reported \$161,000 in cash and \$37,000 in traveler's checks missing from a branch of Southeast Bank in Tampa, Florida, after David Hale Messer, 29, vanished, leaving behind a wife and 16-month-old son. Pros included "travel anywhere, live on islands, meet many women, party." Among the cons were "loss of loved ones, regret with no return possible, money won't last forever" and "it might will go to jail."

Federal testing of cigarettes for tar and nicotine is ending after 21 years, the Federal Trade Commission has announced. It said the program cost about \$200,000 a year and duplicates information available from the tobacco industry. A spokeswoman for the American Lung Association said this hands the measurement of tar and nicotine over to the tobacco

companies and "we certainly don't trust them." She said, however, that even at low tar and nicotine levels, "there is no safe smoking." A spokesman for the Tobacco Institute said, "The cigarette companies anticipate cooperating with the FTC and appreciate the confidence expressed by the agency."

Notes About People

President Ronald Reagan, after some of the usual kidding of himself in a recent speech for monetary lapses and advancing age at 76, got in a dig about the \$1.3 million that Gary Hart, the former Democratic senator from Colorado, owes from his 1984 campaign for the presidential nomination. Mr. Reagan said that within four days of each other, "Texaco declared bankruptcy, Senator Simon declared for the presidency and Gary Hart did both." Mr. Simon is an Illinois Democrat.

Oral Roberts, the television evangelist, got his \$4.5 million balance toward an \$8 million medical center after warning that God would take his life if contributions did not reach the goal. Mr. Roberts, 69, also got a lot of kidding. Bob Hope, 83, in one of his comic monologues, said, "I called the movie academy and said if I didn't get an Oscar, God was calling me home. They said, 'Have a nice trip.'"

Film Toughs Join Drive Against Vandals

The following is a condensed version of a New York Times dispatch by Wayne King: WASHINGTON — If you were in charge of the country's parks and other public lands, and a bunch of punks were trashing them, what would you do? Hire Clint Eastwood, of course. Make his day. That is what Interior Secretary Donald P. Hodel did. He also



FROSTBUSTERS — Wearing a protective suit, Julie Lindeman, a technician with Advanced Genetic Sciences Inc., sprays a field of strawberries near Brentwood, California, in the first authorized outdoor test of genetically engineered bacteria, here intended to prevent formation of frost. Her suit is decorated with a takeoff of the symbol from the movie "Ghostbusters."

signed up Charles Bronson and Lou Gossett. Three toughest guys in America.

But before these guys move on anybody, they're gonna talk. On television spots. Talk about how unhip it is to trash the American greenery. And they're doing it free.

Here is Bronson, for example. The screen says, "Charles Bronson isn't happy." Not happy. Get it? When Charles Bronson is not happy, it's like a pit bull with an earache. The news is ungod. Then Bronson himself appears with a look on his face like his car

just got repossessed. "Someone who gets his kicks punching out flowers," he says in that voice like a dull razor blade, "shouldn't be too much of a match for us."

Clint Eastwood says he finds messing up the parks "unacceptable." Get it. Jack? Unacceptable. Lou Gossett is "annoyed." Hey, clowns. Annoyed.

The Interior Department says the ads are aimed at putting a "social stigma on those who might abuse public lands." Social stigma. How about a bent frame? — ARTHUR HIGBEE

Lawmakers Vow Fight On U.S. Aid To Pakistan

By Elaine Sciolino

WASHINGTON — Congressional advocates of nuclear nonproliferation have promised a floor fight to reject an aid package for Pakistan that was approved by the Senate Foreign Relations Committee despite U.S. intelligence reports that Pakistan is producing weapons-grade uranium.

Members of Congress acknowledged Friday, however, that they had little chance of winning enough support in the full House and Senate to reduce the aid.

By an 11-8 vote Thursday, the foreign relations committee approved a \$4.02 billion, six-year aid package for Pakistan that would start in the 1988 fiscal year, which begins Oct. 1. The vote was widely seen as being influenced by Pakistan's support for the anti-Soviet insurgents in Afghanistan.

"When you have two global concerns like this in conflict, anti-Communism will always overwhelm and drown nonproliferation," said Senator Alan Cranston, Democrat of California.

"This was an unfortunate and simplistic way of dealing with the problem," he said.

Senator Cranston was a co-sponsor of a plan to withhold \$100 million of the \$625 million in aid proposed for fiscal 1988 unless Pakistan stopped producing weapons-grade nuclear material.

Senator John Glenn, Democrat of Ohio, said that when the bill came to the Senate floor he would call for suspending military aid unless the administration could give "reliable assurances" that Pakistan had stopped making weapons-grade nuclear material.

Anti-proliferation advocates in the House, which in an earlier vote failed to cut aid to Pakistan, also vowed to press the issue when the foreign aid bill comes to the floor.

Availability of Guns Cited In U.S. Multiple Murders

By Matthew L. Wald

BOSTON — Multiple murders of strangers, like the one last week in Palm Bay, Florida, are not unique to American society. But the incidents in the United States often involve more victims because guns are readily available to a pathological individual with an urge to express a murderous rage, experts say.

The 68-year-old unemployed man who killed six persons Thursday

in their book, "Mass Murder: America's Growing Menace." Mr. Levin and Mr. Fox, both professors at Northeastern University in Boston, listed four threads common to mass murderers.

The killer, they found, has usually had "a life of frustration," as Mr. Levin put it in an interview. "He may be a victim of abandonment as a child, or a physical handicap, deformity, poor grades or low intelligence."

There is also usually a precipitating event, like loss of a job or a divorce.

Usually, the killer is familiar with guns, and is a military veteran, a hunter or a target-shooting enthusiast.

But the pair found another factor they thought was peculiar to the United States, which they called a "breakdown in social controls."

"In most of these cases," Mr. Levin said, "these people didn't have others around to stop them, and to get them through bad times, either because they lived alone, or they had recently pulled up roots and moved."

American society, he said, experienced a breakdown in internal controls during the 1960s and early 1970s when "we were admonished not to feel excessively guilty."

While the trend may have been healthy or at least unhelpful for the majority, he said: "We may have created a few more people at the extreme, who didn't feel guilty to begin with. Put that together with the breakdown in external controls, and you've got dynamite."

But the experts cautioned that many thousands of individuals appear to fit the profile of a mass murderer, and most of them never turn to violence. The reasons that a few do is little understood.

"Every neighborhood has them," said Mr. Fox. "They say, 'He doesn't like people, he'll shoot you.' There are many people who will fit that bill, but we can't go and round them all up. You'd arrest thousands just in New York City."

Duarte Appeals to U.S. Over Immigration Law

By Robert Pear

WASHINGTON — The president of El Salvador, alarmed about the new U.S. immigration law, has appealed to President Ronald Reagan to give temporary refuge to Salvadorans living illegally in the United States.

In a letter to Mr. Reagan, President Jose Napoleón Duarte said that if large numbers of Salvadorans were returned home under a provision of the new law, it would be disastrous to El Salvador's economy.

Key State Department officials, who have opposed efforts by liberal Democratic members of Congress to suspend the deportation of Salvadorans, said they supported the request from Mr. Duarte.

Attorney General Edwin Meese 3d, who has the primary responsibility for enforcing immigration laws, is expected to oppose Secretary of State George P. Shultz in this first major conflict between U.S. foreign policy and the new statute.

Senator Alan K. Simpson, Republican of Wyoming, who shepherded the immigration bill through Congress, said he would resist Mr. Duarte's request. For the State Department to support it, he said, is a "bizarre twist."

The new law, the Immigration Reform and Control Act of 1986, offers legal status, or amnesty, to illegal aliens who can prove that they entered the United States before Jan. 1, 1982, and have lived in the country continuously since then.

Mr. Duarte said that "some 400,000 to 600,000 Salvadorans have entered the United States illegally since January 1982" and thus would not qualify under the amnesty program.

He said his country was experiencing "a severe economic crisis" because of seven years of civil war and the earthquake that left 300,000 people homeless in October.

Mr. Duarte said that the return of Salvadorans from the United States "would reduce drastically the amount of money received by poor Salvadoran people in remittances from relatives now working in the United States."

"The total value of remittances is

some place between \$350 million to \$600 million annually," Mr. Duarte wrote, "and is thus larger than the United States government's assistance to El Salvador."

He urged Mr. Reagan to let Salvadorans remain in the United States "until the economic situation has improved" in El Salvador.

Elliott Abrams, the assistant secretary of state for inter-American affairs, is a leading supporter of Mr. Duarte's request.

Some members of Congress and human rights advocates assert that hundreds of civilians were killed in the last year in El Salvador by government security forces, death squads affiliated with them and leftist guerrillas opposed to the government.

They oppose the deportation of Salvadoran refugees on the ground that they would face persecution if they were returned to El Salvador.

Bills to defer the deportation of Salvadorans have been introduced by Representative John J. Moakley of Massachusetts and Senator Dennis DeConcini of Arizona, both Democrats.

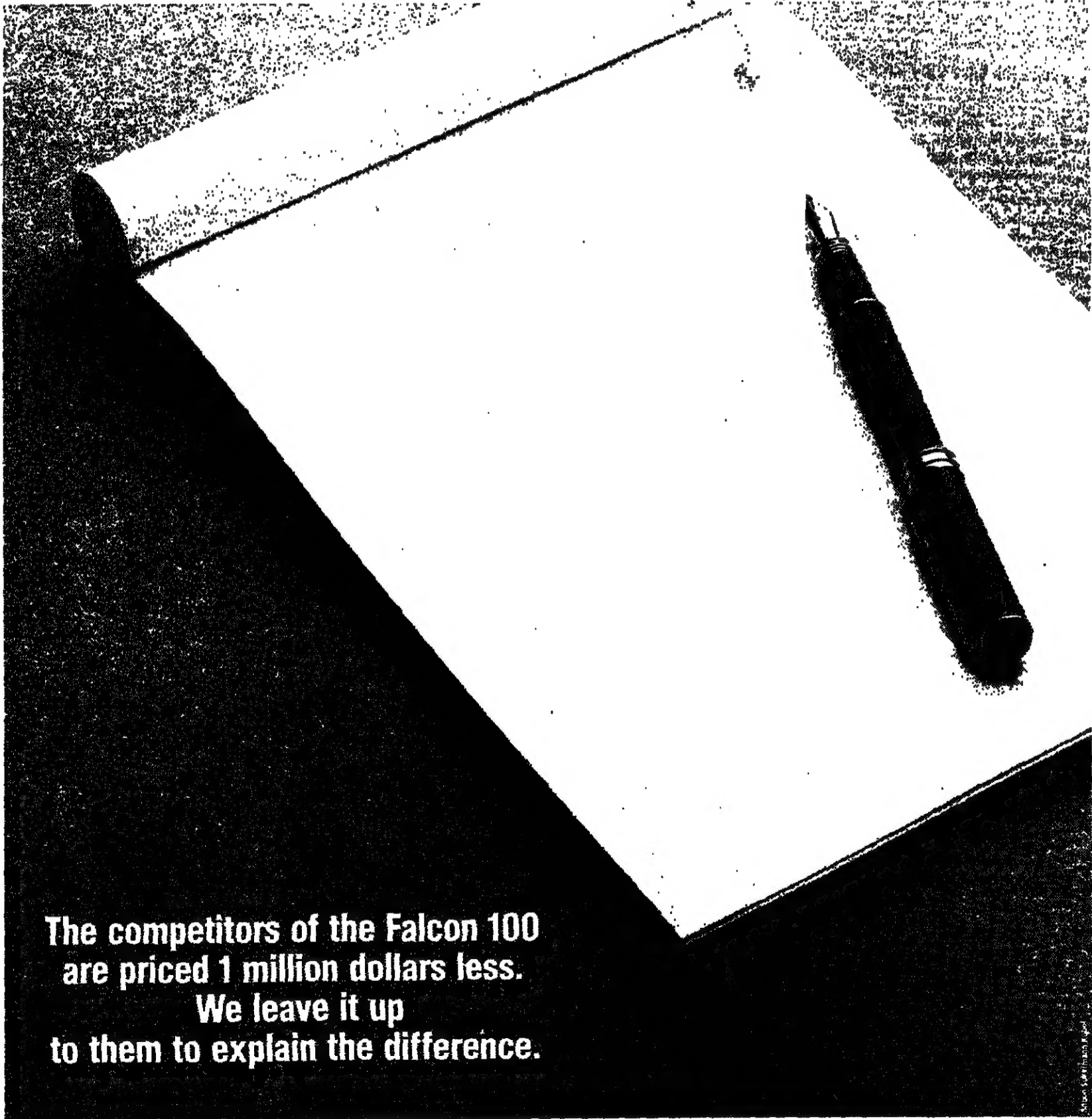
Chile May Close Detention Centers

Reuters

SANTIAGO — The 11 detention centers operated by Chile's secret police would be closed under a law proposed by President Augusto Pinochet, the government newspaper La Nación said reported.

The secret police would still have powers of detention but suspects would have to be held in normal prisons, the paper said Saturday. General Pinochet said Friday he would send draft legislation to the ruling military junta, revoking a law giving the National Information Center the right to arrest and hold suspects.

The center, set up in 1977, frequently has been accused by human rights officials of torturing detainees. Some human rights lawyers said Saturday that it was unclear whether the proposed law amounted to an outright ban on the holding of suspects by the center. In the past, suspects have been held up to two weeks before being handed over to military tribunals.



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Business takes off with Falcon

TAMILS: Sri Lanka Rift Widens

(Continued from Page 1)

Dutch and the British erased political lines and blurred cultural differences but did not blot out the years of separatism.

Sri Lanka, which was ruled by Britain as Ceylon until it won independence in 1948, today is a country where about 75 percent of the people are Buddhist Sinhalese with a culture dating to the fourth and fifth centuries A.D.

Michael Roberts, a native Sri Lankan now at the University of Adelaide, in Australia, wrote in a study of the Sinhalese a decade ago: "The history of the island has bequeathed to the Sinhalese a vision: their role as a chosen people destined to preserve Buddhism in its pristine purity in the island bastion."

This is a vision not shared by the Hindu Tamils, the other major group in Sri Lanka, whose kingdoms, mostly in the north but also stretching to the east, date back several hundred years. With a favored position during colonial rule due to educational advancement, theirs is the view of the minority suddenly finding its position eroded by a newly assertive majority.

Yet the Tamils, with 18 percent of the total population of about 16 million, are not all of one mind, except perhaps when the pressure is heaviest from the Sinhalese majority.

The so-called northern Tamils of the Jaffna Peninsula, more than one million strong, are divided along caste lines. The Tamils in the east often feel as if the Jaffna Tamils do not count them as equals. The 100,000 or so Tamils of Colombo are yet another group, as are the 1.5 million so-called Indian Tamils.

The Indian Tamils, who were brought to Sri Lanka during British

times as laborers, now mostly live around the tea estates in the mountainous center of the country, separated by territory and background from the other Tamils. Making up about one-third of the total Tamil population, so far they have stayed aloof from the strife in the rest of the country.

In times of tension, many of these differences seem to blur. A Tamil businessman who has contacts with important people in government says there is growing despair among many in Colombo, but especially among the Tamils, who complain they are not given jobs because of their ethnic background.

During a break in the curfew that was declared in Colombo to try to prevent a backlash against Tamils from Tuesday's bus bombing, a former journalist who lost jobs, apparently because of his ethnic background, said: "There used to be days of equality. These are days of inequality."

Since the riots in 1983, the Tamil population of the city has dwindled to about 100,000 today, from 160,000.

For all their despair, these well-educated and well-placed Tamils normally do not hold great attachment to the young guerrillas who have swept aside the more established Tamil leadership.

They also recognize that it was the youngsters with the guns who came to symbolize growing Tamil disenchantment and who protected Tamil lives during a period when a relatively undisciplined army often committed human rights violations.

Now it is the youngsters with the guns who are in a desperate struggle with the government's increasingly strong military and police.

When tensions build other Tamils find they cannot remain immune.

The government decision to bomb guerrilla bases in the Jaffna Peninsula will bring the point home even more. Most of the bases are in built-up areas of Jaffna City or in villages spread across the peninsula.

China Executes 5 Murderers

BEIJING — Five men were executed Saturday after being sentenced here in separate murder cases, the Beijing Ribao reported Sunday.



ANTI-REAGAN MARCH IN WASHINGTON — Demonstrators at a march in Washington, called to protest Reagan administration policies in Central America and South Africa. About 75,000 participants marched from the White House to the Capitol.

IMAGE: U.S. Presidential Candidates Compete to Display Emotional Sides

(Continued from Page 1)

cried in New Hampshire as he defended his wife over an unflattering newspaper article in The Manchester Union-Leader.

By contrast, when Mr. Hart lost his composure on a recent visit to his hometown of Ottawa, Kansas, his staff was thrilled with this "humanizing" moment. While talking about his parents, Mr. Hart's eyes filled with tears and his voice quavered.

On the "60 Minutes" television program last month, Mr. Bush passionately defended himself against those who have called him a "wimp" and "a lap dog," and talked about the death of his 3-year-old daughter, Robin, from leukemia in 1953.

In an interview with Vanity Fair magazine, Mr. Dole spoke moving-

ly and candidly about his disabled arm and hand, about the patience needed each day to tie his shoes, thread his cuff links and button his shirt.

On the "Today" show, Senator Joseph R. Biden Jr. talked publicly for the first time about the 1972 automobile accident that killed his first wife, Neilia, a schoolteacher, and his baby daughter.

"I think it was unfortunately the most graphic demonstration in the world for me as to how little control one has over their lives and their destiny, how much a role fate plays, and how vulnerable we all are," he said. "At the time I didn't think of any of that, I just felt rage, absolute rage, anger."

Recalling a time when Hubert H. Humphrey was portrayed as "an open Washington joke" because he

cried so easily, Representative Morris K. Udall, an Arizona Democrat, thinks the evolution is healthy.

Mr. Udall, who is completing his 26th year in the House, credits a cultural change in the country, a shift that is reflected in the new breed of sensitive but masculine men featured on several hit television shows.

"There's no longer the old frontier where grown men don't cry," he said. "And there's a lot more openness about personal relationships."

Others find the trend more synthetic. "It looks like the political consultants are writing tears into the script in a conscious effort to go for sympathy, some quite crudely," said Michael Kinsley, editor of The New Republic magazine.

NUCLEAR: Chernobyl Lessons

(Continued from Page 1)

dent is precluded in the United States because of design differences, although, of course, that does not rule out accidents of other types.

A report on the Chernobyl disaster issued this month by the Atomic Industrial Forum, an American industry group, said:

"The Soviet accident has had little technical impact on civilian nuclear technology in the West. After a year of intensive analysis, government and industry experts are convinced the Soviet design is not relevant to Western nuclear programs, because the design of the Chernobyl-type reactor is unique."

Nevertheless, American reactors have had their share of problems. For example, on March 31, the Peach Bottom station at Delta, Pennsylvania, was closed after federal inspectors found evidence that operators had been sleeping at the controls.

Virtually all American commercial reactors are light-water reactors, of a type in which ordinary water serves both to carry useful heat away from the reactor and to

moderate, or slow down, neutrons produced by the nuclear reaction, thereby using them to maintain a controlled chain reaction.

By contrast, the graphite-moderated type of reactor at Chernobyl and some other Soviet stations uses water to carry away heat, but moderates neutrons by a gigantic honeycomb of graphite in which the uranium-bearing fuel rods and their water jackets are embedded.

When such a reactor is operated at low power, in what is called an unstable mode, it can be easily tripped into a runaway reaction of the kind that brought about last year's disaster. In an experiment that led to the accident, the Chernobyl operators had deliberately throttled the reactor back.

Anti-Nuclear Protests

Dutch riot policemen fought Sunday with up to a hundred anti-nuclear demonstrators who broke through a security fence surrounding the blockaded nuclear power plant at Borssele, the Netherlands. The Associated Press reported from Borssele.

Twenty-nine policemen were injured and 10 demonstrators were treated at a medical station in the nearby protest camp. No arrests were made, according to the police in the southern Netherlands community.

The protest, marking the first anniversary of the Chernobyl disaster, started Saturday and ended Sunday afternoon.

In other protests marking the Chernobyl anniversary:

• More than 4,000 protesters staged a rally Sunday at a nuclear reprocessing plant being built at Wackersdorf, West Germany. Organizers said that 6,000 people took part. The police put the number of participants at 4,500. There were no reports of trouble. Smaller rallies took place in several cities, including Hamburg, West Berlin and Cologne.

• About 3,000 anti-nuclear activists marched Sunday through the streets of Thionville in northeastern France to protest the nearby Cattenom nuclear plant. (AP)

• Japanese anti-nuclear activists held rallies across the country on Sunday. In Tokyo, some 1,000 people gathered in a park, and similar rallies were held in Osaka, Kyoto, Aomori and Sapporo. In Sapporo, about 70 people gathered in front of a nuclear power plant and released balloons. (AP)

• Police in Sweden arrested six anti-nuclear protesters during demonstrations Sunday outside nuclear power plants.

• In London, a crowd estimated at 50,000 by the police and 100,000 by organizers marched from Victoria Station to Hyde Park. (AP)

• In Caserta, Italy, 50,000 demonstrators joined hands between a nuclear power plant and a military airport. (AP)

PLO:

Arafat Re-elected

(Continued from Page 1)

Sunday reiterated all the PLO's most radical positions. These include the demand for a sovereign Palestinian state with Jerusalem as its capital.

Mohammed Abbas, known as Abu Abbas, who was convicted in Italy of masterminding the 1985 Achille Lauro ship hijacking, kept his position on the PLO's executive committee despite a prediction by Arafat loyalists that he would be removed.

■ **Israel Looks to Moderates** Israeli officials said Sunday that the PLO's hard-line policies might have cleared the way for talks between Israel and moderate Arabs. The Associated Press reported from Jerusalem.

An Israeli official, who asked not to be identified, said the resolutions in Algiers, coupled with recent anti-Israel guerrilla attacks, showed that "the PLO has taken itself out of the peace efforts being made in the area" and that "the best way to proceed now is with Jordan, Egypt and Palestinians who are not members of the PLO."

Israel's foreign minister, Shimon Peres, has been campaigning for talks with Jordan and non-PLO Palestinians in the framework of an international conference on Middle East peace.

U.K. Strikers Vote

To End a Sit-In At Tractor Plant

Reuters

LONDON — Strikers at a tractor plant near Glasgow that is scheduled to be closed by Caterpillar Tractor Co. of the United States voted Sunday to end their occupation of the factory after more than three months.

A meeting attended by 700 of the plant's 1,200 workers approved an agreement reached with management Thursday. Production is to resume Monday.

The agreement calls for the establishment of a working group of representatives from both sides. The group has been given until Oct. 16 to find a buyer for the factory.

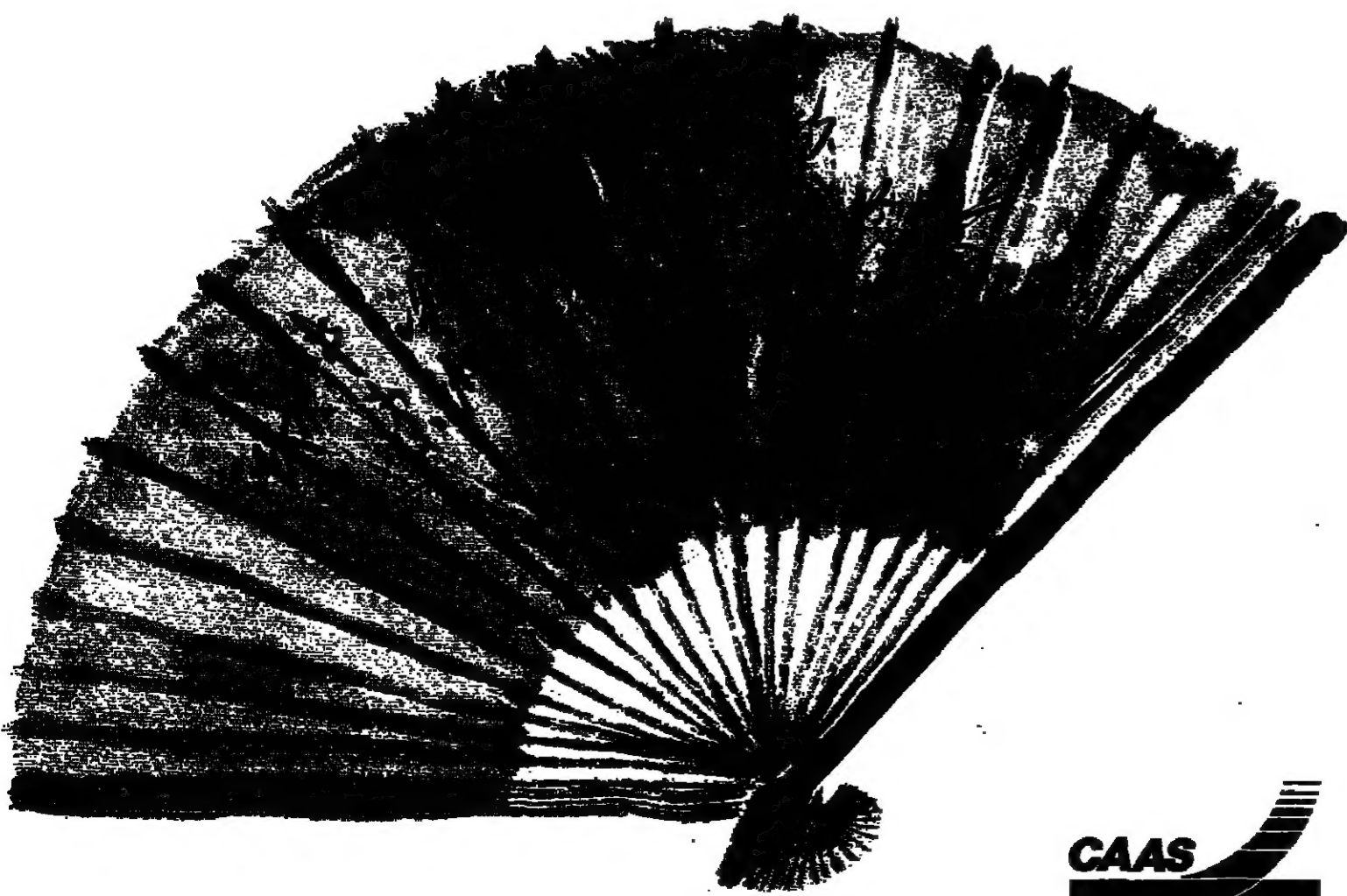
The company has promised that there will be no job losses before that date. Workers began their occupation Jan. 14 after Caterpillar said that it planned to close the plant and furlough the entire work force.

Separately, at a Glasgow rock concert in support of the Caterpillar workers on Sunday night, a 16-year-old youth was killed and two were injured in a brawl.

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THE U.S. STOCKMARKET

Taiwan: Coming of Age

IN THE NEWS

May 21, 1986: Governments Agree on Plane Return

Taiwan and Beijing initial their first accord in 37 years as they formally agree on the return of a Taiwanese cargo plane and two crew members held in China. The China Airlines Boeing 747 jet, a Taiwan-based carrier, was diverted to the mainland by a defecting pilot.

Sept. 28: Opposition Establishes Party

The Taiwan opposition defies martial law and sets up a party to contest the December legislative elections. The Democratic Progress Party, established by 135 members of the loose opposition alliance known as the Tangwai, which operates outside the three approved political parties, nominated 42 candidates to run for parliament.

Oct. 15: Plans Approved To Lift Martial Law

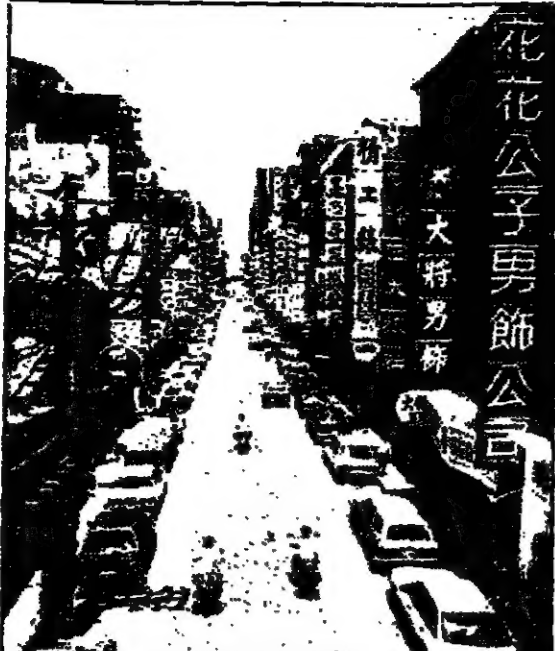
Following statements by President Chiang Ching-kuo to initiate political change, Taiwan's ruling party approves plans to lift martial law decrees and agrees to reforms allowing individuals to set up new political parties. The emergency decrees had been in effect since the ruling Kuomintang fled mainland China just before the Communist victory in 1949.



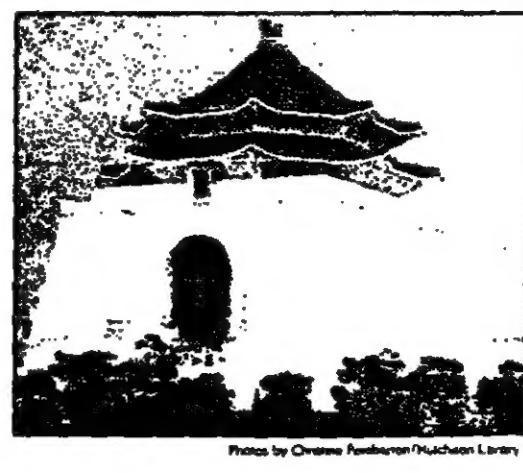
Chiang

Dec. 7: New Party Wins A Quarter of Vote

The Democratic Progress Party does well in legislative elections to two central government bodies. The opposition party won nearly a quarter of the overall vote while the Kuomintang, or Nationalist Party, maintained significant margins in both the Legislative Yuan, the lawmaking body, and the National Assembly, which oversees constitutional amendments and elects Taiwan's president and vice president.



'Although Western ideas are gaining acceptance, Chinese culture is still the strongest influence.'



Photos by Christine Fenderson/Huachuan Library

Change in Foreign Policy Proceeds Slowly

By Chen Hao

TAIPEI — Although the political agenda has assumed an added urgency since last December's legislative elections, foreign policy appears to have been little influenced by Taiwan's social and political evolution. When Taipei officials negotiated the return of a jetliner diverted to mainland China last year, in its first formal contact with Beijing, many viewed it as a harbinger of a potentially significant shift in the Kuomintang's long-established policies toward the People's Republic and, by extension, its overall international role. But many analysts have come to view the talks held

in Hong Kong last May as an isolated incident. "The political reforms taking place here have been widely recognized in the West and may help improve our international image and our relationship with the United States," said a deputy foreign minister, John H. Chang. "But in the short term, there is no urgent drive to make drastic changes in the field of foreign policy, as many people had expected." The absence of new developments in foreign policy in part reflects a lack of significant opportunities for policymakers, local and foreign analysts point out. But neither has Taipei advanced far toward resolving the one important issue that has emerged in recent months: its membership in the Asian Development Bank.

While it is a charter member of the Manila-based institution, and a net lender to it, Taiwan's presence in the bank was thrown into question when mainland China was invited to join it in February 1986. Although Taipei has since boycotted the bank's activities, those urging a more open foreign policy used this boycott to mollify conservative officials, thus averting a complete withdrawal from the only major multilateral body of which Taiwan is still a member. Nonetheless, the government elected not to attend the bank's annual meeting in Osaka, Japan, this month, citing its dissatisfaction with its new designation.

Continued on page III

A Country in Transition

Reform Drive Loosens Reins On Politics

By Patrick L. Smith

HONG KONG — It has been little over a year since President Chiang Ching-kuo set in motion a series of reforms intended to modernize Taiwan's political system. While many analysts immediately recognized the far-reaching implications of Mr. Chiang's proposals, few anticipated the transformation that has since swept this traditionally ruled island state. No other East Asian nation has been as politically stagnant in recent years. Yet none now matches the pace at which Taiwan is moving toward a more democratic form of government and the relative calm with which this process is unfolding. Martial law, which has been in force since the ruling Kuomintang, or Nationalist Party, fled the mainland before the Communist takeover in 1949, is now expected to be lifted within the next several months. The government also intends to make its three legislative bodies more representative and to give greater autonomy to provincial and municipal administrations. These are among the measures that the president outlined when he signaled his liberalization drive in March 1986. Since then, he has moved toward reform of the national judiciary and is expected soon to lift restrictions on the number of newspapers published in Taiwan and the size of the 31 dailies that are currently licensed. More significant than any of these steps, however, has been the Kuomintang's unofficial acceptance of its opponents in recent months. In defiance of a martial law ban on new political organizations, the ruling party's loosely allied adversaries formed the Democratic Progressive Party last September. The party's appearance marks the first time native-born Taiwanese, who make up the majority of the island's 19.4 million residents, have been permitted an organized political vehicle since the Kuomintang, which is dominated by mainlanders, established its authority here. In elections last December, the Democratic Progressives won a small but significant foothold in the Legislative Yuan, which is the lawmaking body. The new party has catalyzed the local political environment, particularly since the legislature convened its first session of the year in February. More than anything else, the party has begun to erode the long-accepted view of government in Chinese society as a distant, unapproachable authority that is beyond questioning by its citizens. Protests by one special interest group or another — farmers, mer-

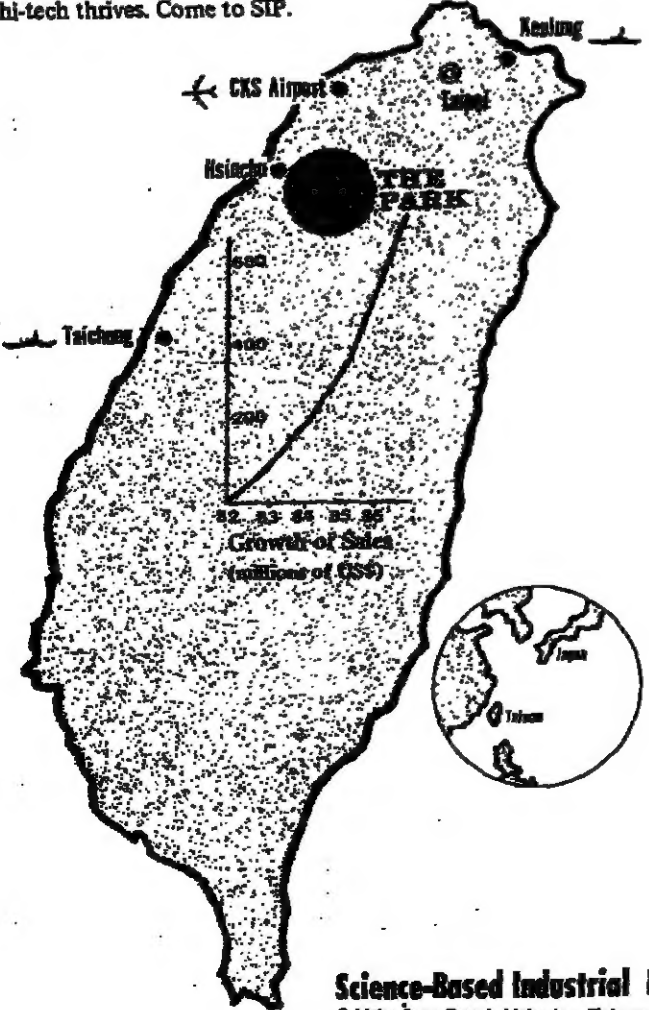
Continued on page VI

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Relations With U.S., China

Trade, Politics Keep the Pressure On

By Robert A. Manning

WASHINGTON — A combination of developments in China and Taiwan and in U.S. relations with both nations poses new problems for Taipei. While there is no immediate threat, the conflict between U.S.-Chinese relations on the one hand and Washington's commitment to Taiwan's security on the other — as well as U.S. human rights concerns — continue to loom as long-term factors that could unsettle the delicate balance.

Interviews with U.S. officials, congressional staff members and Taiwan activists point to continued pressure on Taipei over issues of trade and the country's fledgling democratization process.

Several new elements have entered the equation in recent months. They include the political crackdown by Beijing, nascent pluralism in Taiwan after December's legislative elections and the Democratic Party's gaining control of both houses of the U.S. Congress in November.

The most immediate issue for Taipei is the threat of U.S. protectionism. In 1986, the United States had a \$13.5 billion trade deficit with Taiwan, and pending U.S. legislation could jeopardize Taipei's export-dependent economy. Both U.S. and Taiwanese officials say the trade disputes can be resolved and are unlikely to spill over into the political realm.

Moreover, U.S. officials and congressional analysts say that recent political developments will have only a marginal impact on U.S. policy toward China and its extension, if not to Taiwan.

The ascendancy of supporters of democracy in Taiwan to key positions of power in Congress may prove the most nettlesome for Taipei.

These lawmakers include Senator Claiborne Pell, a Rhode Island Democrat and the new chairman of the Foreign Relations Committee, Senator Edward M. Kennedy, a Massachusetts Democrat, and Represent-

tative Stephen J. Solarz of New York, also a Democrat. They have been ardent backers of Taiwanese forces urging self-determination for the island state and they now face the dilemma of how to balance that concern with the stability of U.S.-Chinese relations.

Both Beijing and Taipei claim that Taiwan is part of China and seek reunification on their own respective terms.

The Reagan administration appears sanguine that its finely tuned balance is not in jeopardy. The United States severed official ties with Taiwan when it normalized relations with Beijing in 1979, but continues to maintain large-scale unofficial contacts.

As a State Department official said,

plies has often been contested by Beijing. The United States has resisted Taipei's requests for either the F-20 or F-16 advanced fighter plane.

However, last year, following U.S. approval for a \$550 million deal to provide advanced avionics for Beijing's F-8 fighter, the United States did permit private defense firms to help Taiwan build a new all-weather fighter, over Beijing's objections. U.S. officials deny that this reflected any shift in policy. But analysts in Washington say it enabled the United States to straddle the fine line between the 1982 communiqué and the Taiwan Relations Act.

Taiwan is viewed by Beijing as a major obstacle in U.S.-Chinese ties. That this is a

dence of Beijing's heavy-handed threat. Taipei also faces pressures from the other direction. In Washington, a coalition of liberals favoring self-determination for Taiwan is growing and is aligned with rightist pro-Taiwan supporters. Analysts say that Taipei's moves toward democracy have renewed conservative support for Taipei as well as energizing liberal rights activists.

A delegation from the Democratic Progressive Party, which gained 23 of 152 contested seats in Taiwan's legislature in December, was well-received during a February visit to Washington. The group was reportedly sounded out — through an intermediary — about a meeting with Beijing's ambassador to the United States, which it declined.

Perhaps the most striking example of such sentiment was a speech given by Mr. Peng on Feb. 23, expressing support for self-determination. He said, "If the Taiwanese people freely vote for independence, the world should respect their judgment."

While the liberal lawmakers are pressing for political change in Taiwan, they are careful not to disrupt U.S.-Chinese ties.

Even Peng Min-min of the Foreign Association for Public Affairs, the main pro-democracy lobby, said, "Congressmen are careful to draw a line between democracy and independence." Mr. Peng said his group's strategy is to press for more democratization and play down the independence issue, which is anathema to Taipei and Beijing.

Even so, trade tensions with the United States, urged from Washington for political change and from Beijing for reunification, add up to a steady stream of pressure on Taipei for the foreseeable future.

ROBERT A. MANNING is a diplomatic correspondent in Washington for U.S. News and World Report.

The most immediate issue for Taipei is the threat of U.S. protectionism.

"The Taiwan issue has been institutionalized."

An August 1982 U.S.-Chinese joint communiqué devised a formula couched in carefully ambiguous language that continues to be a source of U.S.-Chinese friction.

In exchange for Beijing's pledge to pursue peaceful reunification with Taiwan, the United States, the communiqué said, would limit the quantity and quality of arms sales to Taiwan to 1980 levels and phase down military aid.

But Washington must also abide by the Taiwan Relations Act, which commits it to meet Taiwan's security needs. Since 1983, U.S. arms sales to Taiwan have shrunk by \$20 million a year from a high of \$780 million. Last year, they totaled \$700 million.

How the United States has defined, for example, the quality of weapons it sup-

plies has often been contested by Beijing. The United States has resisted Taipei's requests for either the F-20 or F-16 advanced fighter plane.

Reaffirming U.S. support for a peaceful resolution of the Taiwan issue, Mr. Shultz welcomed "developments such as indirect trade and increased human contact, which have contributed to a relaxation of tension." He added that U.S. policy "seeks to foster an environment in which such developments can continue to take place."

Beijing viewed the speech as a tilt in its direction. But Washington has resisted Beijing's requests to press Taiwan on reunification. U.S. officials say the Shultz speech was carefully crafted to appear more forthcoming while not actually altering the U.S. position.

To Taipei, however, the speech was evi-

Taiwan Aide in U.S. Knows His Americana

WASHINGTON — The black limousine parked in front of a gleaming new eight-story steel and glass building near north-

west Washington's Tenley Circle does not have diplomatic license plates. Nonetheless, it belongs to one of the city's most active and well-regarded diplomats, Frederick F. Chien, head of Taiwan's quasi-embassy here, the Coordination Council for North American Affairs.

The council's move last autumn from an outlying suburb is perhaps symbolic of Taiwan's enhanced, if unofficial, presence in Washington.

Still, Mr. Chien has his work cut out for him. Not only does he battle against Washington's relationship with Beijing and the nonrecognition of Taiwan, but his nation's economic success has helped spur a trend far more threatening to Taipei than its political isolation: mounting protectionism in the United States.

The 51-year-old diplomat is one of a new breed of less ideological technocrats gaining prominence in the ruling Kuomintang. A former translator for Chiang Kai-shek with a Ph.D. from Yale, Mr. Chien is typical of a new generation of Kuomintang mandarins.

Since he took his present post in 1983, he has impressed audiences, peppering his conversation with bits of Americana that put any group here at ease.

"He's very effective," said a U.S. official. "He understands both the ways of Washington and Americans very well, and he's broadened his range of contacts beyond the 'Free China' faithful." The official added, "It's a big difference from the old geriatric KMT generation."

Mr. Chien's polish long fueled speculation in both Washington and Taipei that he will eventually be named foreign minister.



Frederick F. Chien

four-fifths of my time." In Capitol Hill lunches and speaking engagements around the country, he seeks to persuade businessmen and opinion makers that Taiwan is not the culprit.

"We're being blamed for our success," he said. "We tried to emulate the U.S. Having done that successfully, are we now going to get punished for it?"

The current U.S. focus on Japan has taken the heat off Taiwan, he said. Mr. Chien hopes that this, along with waves of Taiwan "buying missions" to the United States and Taiwan's moves to curb counterfeiting and to pry open its markets, will quell the protectionist threat.

TAIWAN also faces political challenges that have grown more complex in recent years. The Taiwan Relations Act ensures that the United States will meet Taipei's security needs, but Taiwan also must deal with a burgeoning group of prominent U.S. lawmakers who are backing human rights and self-determination for Taiwan.

This Taiwan lobby includes Senator Claiborne Pell, Democrat of Rhode Island and chairman of the Foreign Relations Committee, and Senator Edward M. Kennedy, Democrat of Massachusetts, as well as Representative Stephen J. Solarz, Democrat of New York, and a host of U.S.-based Taiwanese groups.

Fortunately for Mr. Chien, the combination of a political crackdown by Beijing and new openness in Taipei have eased such pressures. The emergence of the Democratic Progressive Party, which won 23 of 152 contested seats in two legislative bodies in December, marked a dramatic step toward democracy.

Mr. Chien sees the new openness as an

inevitable consequence of Taiwan's economic development.

"What we've done in the past few months," he said, "is a product of our economic progress." He said such developments had been well-received in the United States. "I'm heartened to read complimentary columns and editorials. They have been very positive." Even among Taipei's critics on Capitol Hill, he added, "I've discerned a less critical approach. They want more concrete changes, but they have guardedly welcomed the changes we have made."

The biggest recent stain on Taiwan's image was the murder of Henry Lin, a journalist, in 1984. Mr. Chien moved quickly after this incident, urging Taipei "to take swift action." Although top Kuomintang officials were convicted, Mr. Chien said, "Thank God we didn't try to cover up. This has kept damage to a minimum."

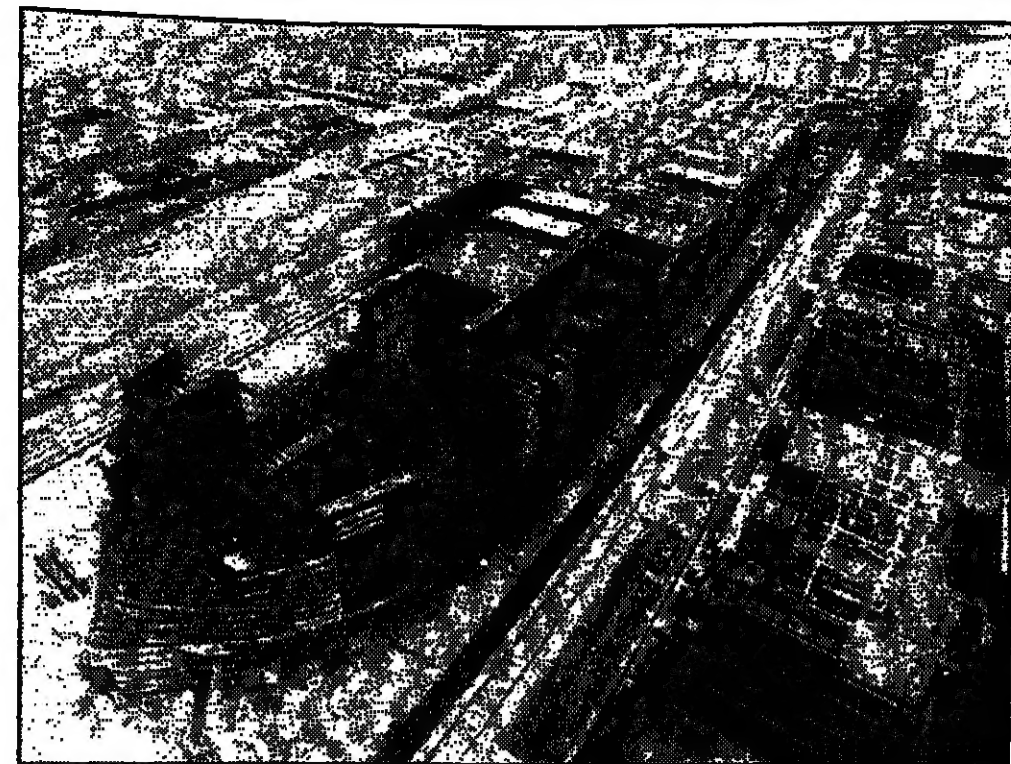
Mr. Chien's approach also reflects a similar shift toward a more pragmatic and assertive foreign policy on Taiwan's part. The main vehicle for this policy is participation in various international organizations and sporting events.

Taiwan's acceptance of the title "Taipei, China" as the price for co-existing with Beijing in the Asian Development Bank, although the issue remains unsettled, is viewed as a formula for dealing with its identity problem.

"As long as we are treated with dignity and equal footing," Mr. Chien said, "we will participate."

In a comment that is perhaps the key to his overall task, he added, "We don't want the Republic of China to be forgotten."

Robert A. Manning



A cargo vessel under construction in a shipyard at the port of Kaohsiung.

Booming Port Is Growing

By Patrick L. Smith

KAOHSIUNG — The unhurried pace of this semi-tropical city, the main streets of which are lined with traveler's palms and flowering bushes, belies its importance as one of the world's largest and most sophisticated ports.

Like the economy as a whole, Kaohsiung's growth has been explosive over the past two decades, and like Taiwan's two largest cargo lines, the Evergreen and Yang Ming groups, the port today is a measure of the island's increasing prominence in activities other than manufacturing.

In addition to handling almost three-quarters of Taiwan's import and export traffic, Kaohsiung is rapidly assuming a role as an intermediate point between many smaller Asian ports and the region's markets in the United States and Europe.

For their part, Evergreen and Yang Ming are already among the world's leading shipping lines. Their continuing expansion, particularly as other lines struggle in a troubled industry environment, reflects a steady shift among shippers toward the more competitive carriers in developing countries.

In many respects, Kaohsiung's

growth has gone hand in hand with that of the two domestic lines, whose dominance here is readily apparent. But the privileged position occupied by Evergreen and Yang Ming — the latter of which is government owned — is now being challenged as part of the broader U.S. effort to compete in Taiwan's services sector.

Severely damaged by Allied bombing in World War II, Kaohsiung (which is pronounced GOW-shung) was unable to mount its first major modernization plan until 1958. Eleven years later, the port docked its first freight container.

Growth has tracked the economy ever since. Two years ago, Kaohsiung overtook Kobe, Japan, as the world's fourth largest port in terms of 20-foot (6-meter) equivalent units, or TEUs, which measure traffic volumes by converting container freight into standard units of 20 feet. It now ranks behind Rotterdam, New York and Hong Kong by this measure.

"We've gone from zero to the top in 18 years," said Ma Shin-i, the deputy director of the Kaohsiung Harbor Bureau. "Hong Kong is now our only competitor in Asia."

That is not quite the case. Reflecting the port's increasing prominence in East Asia, transshipments now account for a

quarter of total container traffic, putting Kaohsiung in direct competition with Singapore and other Southeast Asian shipping centers.

Although Kaohsiung is well-situated astride the region's main shipping lanes, Rear Admiral Ma, who served in the Nationalist navy before assuming his duties here, cannot offer transshipment services to those trading with the mainland. As mainland China modernizes, political considerations may prove a severe limitation on the development of Kaohsiung's transshipment activities.

Nonetheless, the port is now midway in an expansion program that many shipping analysts believe will make it the world's busiest. Annual handling capacity is expected to double to 100 million tons by 1991, when its fourth container terminal is to be completed. Terminals five and six, which will triple current capacity, are already being planned.

As a result of expansion programs at Evergreen and Yang Ming — their combined capacity grew by 40 percent last year — Taiwan already ranks as the world's third largest shipper of containerized freight. Evergreen, which was founded in 1968 by a former sea captain, became the global leader among lines last year; Yang Ming is in the top 10 and climbing.

The two lines will take delivery of four and six new vessels, respectively, over the next two years.

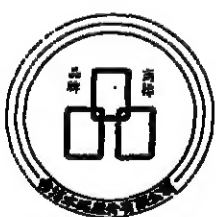
The advantages enjoyed by these and other Third World carriers are evident. Manning levels are a third lower than they are for, say, a ship registered in the United States. Wage differentials are the same as they are in industry as a whole.

In 1985, the latest year for which results are available, Evergreen reported net profits of \$82.5 million on revenues of \$1.2 billion. A drop in freight rates is believed to have reduced margins significantly in 1986.

But lower cost structures are only part of the picture, according to independent shipping analysts. Both lines enjoy favored treatment from government corporations that ship or receive cargo, which helps them maintain dominant positions in the Taiwan market.

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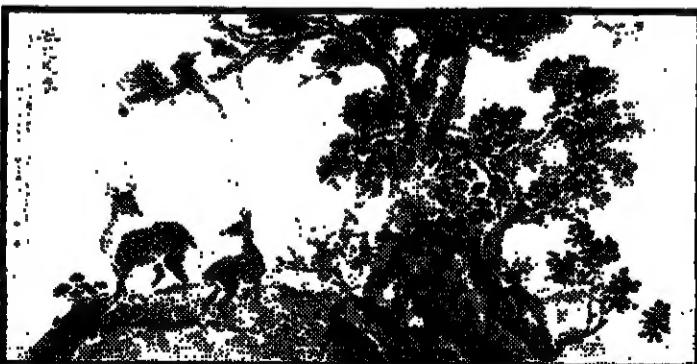
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Seeking Ways to Right the Trade Imbalance as U.S. Gets Impatient

By Paul Mooney
and Patrick L. Smith

TAIPEI—In many respects, 1986 was a year like most others for Taiwan's exporters: better than the one before, with another good one on the way. But it was also the year in which Taiwan joined Japan as a primary target of U.S. trade pressure.

Long a concern of Taiwan's principal trading partner, the multiplicity of barriers that protect local producers has been pushed to the fore by massive year-to-year increases in the island's merchandise surplus. Recent tariff cuts, together with new steps to liberalize the service sector, suggest that the administration has come to count this among its most pressing economic problems.

More than anything else, economists say, the trade surplus and the fiction it causes have underscored the urgency with which Taiwan, which exports half of its gross national product, must begin to trade by the rules of advanced nations.

As if to signal this, Washington announced earlier this month that duty-free status under the generalized system of preferences would be withdrawn on half of the \$3.2 billion worth of products from Taiwan that have been so classified. The cut, which is to take effect in July, was the largest assigned to any U.S. trading partner.

"Taiwan has to take drastic action that will send a message to Congress and the American people," said Robert P. Parker, an attorney and chairman of a trade committee at the American Chamber of Commerce in Taipei. "It needs to show that it is making an effort to give U.S. products a fair chance."

Last year, the overall surplus grew by nearly 50 percent, to \$15.6 billion. With close to half of Taiwan's exports sold in U.S. markets, the U.S. deficit in its trade with Taiwan accounted for \$13.6 billion of the total.

Statistically, there is no clear sign yet that this trend has abated. The first-quarter trade surplus grew by almost 40 percent from the corresponding period last year, to a record \$4.18 billion; exports to the United States were up 26 percent.

What has marked the past year or so, however, is the quickening pace of Taiwan's market-opening efforts. The liberalization of the trade regime, first outlined by President Chiang Ching-kuo three years ago, is being pushed, in short, from the realm of platitudes to reality.

Only a few months ago, for instance, Washington threatened Taiwan with retaliatory action for the first time, under Section 301 of the 1974 Trade Act. The issue was the import of wine, beer and cigarettes; after more than a year of fruitless negotiation, a resistant state monopoly in these products now competes with imports.

Soon after that threat was defused, Mr. Chiang signaled his concern with the overall trade issue by taking charge of a key inter-ministry meeting that is normally left to cabinet officials. The message, government sources say, was an unambiguous call for action.

The principal factor in this apparent re-ordering of priorities appears to be the continuing rise of the Taiwan dollar against the U.S. dollar. Many officials quote further steps toward the liberalization of imports with reduced upward pressure on Taiwan's currency.

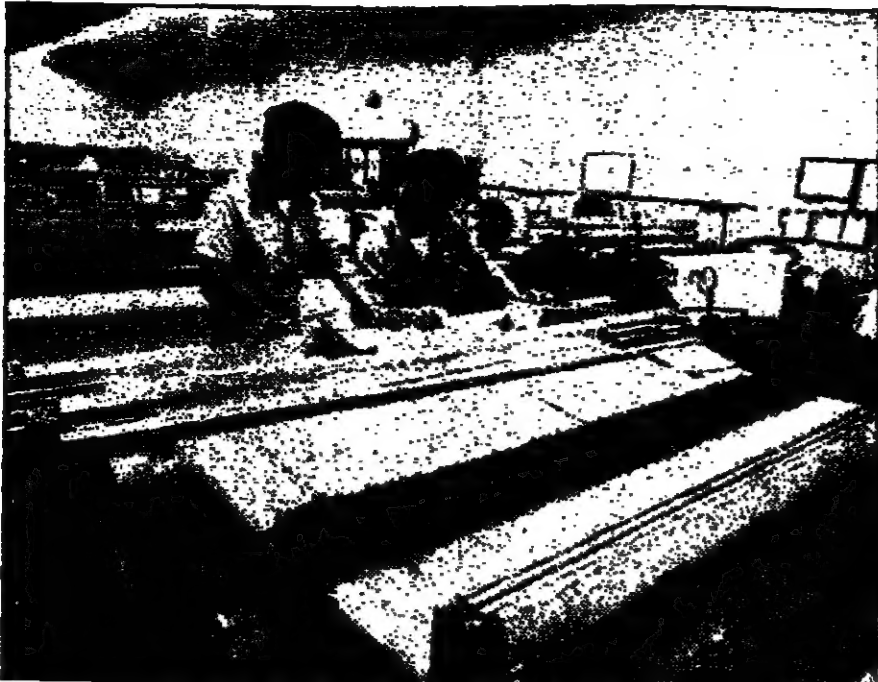
"Reflecting U.S. pressure for a revaluation, the local dollar, which was long held at a fixed exchange rate, has gained almost 20 percent in value since the G-5 meeting of Western financial ministers reviewed global exchange rates in September 1985. It now stands at roughly 33 to \$1."

"The currency issue has caused serious concern about the loss of foreign markets, and this has spurred Taiwan into making some hard decisions on the trade side," said a U.S. trade source. "There's a new understanding that we are talking about substance, not a promise of further discussions leading eventually to some fair-off schedule of tariff reductions."

Evidence of this shift began appearing last year. In two rounds of talks, U.S. officials requested action on 56 items and 16 items, respectively, and came away satisfied with tariff cuts on a high percentage of them.

The items included agricultural goods, home appliances, food products and footwear. Tariffs in some categories were cut by up to half.

In direct response to limitations set by



Turning out textiles at a factory in a Taipei suburb

'Taiwan has to take drastic action that will send a message to Congress and the American people.'

Washington last year on U.S. textile imports, the highest tariff on textiles here was reduced from 60 percent to 30 percent. On many of the items concerned, government officials have announced that this percentage is to be halved again.

The recent disclosure on textile items was included on a list of 862 items, ranging from air conditioners to silk products, for which duties are to be cut by up to 50 percent. Of those items, 61 were part of a group of 66 on which Washington had earlier demanded action.

Overall, the government's aim is to reduce its tariffs to levels below 50 percent. The highest tariffs now are 57.5 percent, a drop of almost 18 percentage points since 1985.

This new round of tariff cuts coincided with several days of trade talks held in Washington earlier this month.

Concurrently, Taipei announced that it would allow four U.S. insurance companies per year to begin competing in the domestic

market; there are now five U.S. insurers active in Taiwan.

Many of the items on which Taiwan is taking action, such as umbrellas and sport shoes, are among its largest exports. Nonetheless, U.S. officials applauded the announcement as a demonstration of "Taiwan's commitment to enhance U.S. export opportunities in its market."

Analysis discerns a newly aggressive strategy in these measures, the aim of which is to remain "out front," as one source said, of U.S. demands.

Taipei has long argued that the opening of its domestic markets will not solve its trade imbalance with the United States. Nonetheless, it now appears to recognize that market-opening measures are as important politically as they are in practical terms.

Taipei is also seeking to strengthen President Ronald Reagan's hand prior to an upcoming round of talks under the Geneva-based Gen-



Dock workers unload sacks of American soybeans at the busy port of Kaohsiung.

eral Agreement on Tariffs and Trade and to soften the tone of trade bills now being considered in Congress.

How effective will Taiwan's change in attitude prove in the coming months? Already the island appears to be moving faster on trade issues than either Japan or South Korea, Washington's other problem spots in the region. But so one, here or abroad, is prepared to predict the future pace of progress, despite the president's recent mandate.

Vested interests, in the government and the private sector, remain strong—a point clearly demonstrated during the lengthy talks Washington held last year on tobacco and alcohol imports. In addition, import duties accounted for 16 percent of government revenues last year, down from almost 25 percent a few years ago but still a percentage viewed widely as too high.

Officials are also concerned about the impact of liberalization on a corporate sector

long accustomed to protective barriers. In particular, the government continues to fear a flood of Japanese imports as trade barriers are lifted.

Last year Taiwan's deficit with Japan, despite blanket bans on Japan's cars and a variety of other products, grew by 34 percent, to \$3.7 billion.

"Who does Washington think will win if we open our markets across the board?" a senior official in the Economics Ministry asked. "Not Americans. So we have to find other solutions."

To balance the problem of Japanese imports with increasing pressure from Washington, Taiwan proposed last September the declaration of the United States and Taiwan as bilateral "free trade zones," an arrangement already agreed by Israel. Washington has so far not responded.

At the same time, Taipei is giving U.S. companies priority in large supply contracts,

such as those covering a number of basic infrastructure projects currently being undertaken throughout the island. Companies such as Otis elevator, AT&T and Foster Wheeler have already been awarded such contracts.

The government has also encouraged exporters to begin concentrating more on European markets, where the local dollar is relatively weak despite its strength against the U.S. currency. Last year, exports to Europe shot up almost 60 percent, to \$4.8 billion.

Once again, however, the question is how effective these measures can be in redressing Taiwan's largest imbalance. Many analysts concluded long ago that the United States' deficit with its fourth-largest supplier of manufactured goods can be slowed, perhaps even reduced somewhat—but not eliminated.

PAUL MOONEY is news editor of International Community Radio in Taiwan and the Taipei correspondent of Newweek.

Liberalized Economy Means Less Government Control

By Don Shapiro

TAIPEI—When a large-scale semiconductor operation was established earlier this year as a public-private joint venture, the government made sure that its share of the \$145 million in equity came to less than 49 percent.

With a majority of shares in private hands, including a 27.5 percent stake by Philips of the Netherlands, the Taiwan Semiconductor Manufacturing Corp. is being run as a private company, complete with an American general manager.

Had a similarly capital-intensive project been launched a decade or more ago, the government portion would almost certainly have exceeded 50 percent, causing the venture to be organized as a state enterprise.

At that time, the more prominent government role in the economy was seen as both a necessity and a virtue. The private sector generally lacked sufficient funds to participate in large projects and many officials shared an ideological distrust of private business and a faith in state control.

But in recent years, state enterprises have repeatedly come under fire from legislators, scholars and editorial writers for waste and inefficiency. In the early 1980s, fully one-third of the state enterprises were losing money and most others were only marginally profitable.

While the contribution of government companies to national manufacturing output was

industry is now receiving impetus from President Chiang Ching-kuo's much publicized plan to "internationalize and liberalize" the economy as a whole.

"Now it's firm government policy to de-emphasize the state enterprises," said K.C. Lee, an official of the Council for Economic Planning and Development. "Giving more op-

State enterprises have repeatedly come under fire from legislators and editorial writers for waste and inefficiency.

portunity to private business should make the whole economy more dynamic."

The effort to reduce the government's role in

plummeting from as much as 40 percent three decades ago to a current 14 percent, the public operations were crowding out more vibrant private sector companies at the loan windows of local banks.

As an example of the new approach, the state-owned Chinese Petroleum Corp. will soon lose its long-standing monopoly position in both upstream petrochemical production

and gasoline marketing. The government has already granted permission to the private Formosa Plastics Group to build a competing naphtha-cracking plant, and by the end of this year the first privately run service stations are due to open.

Preparations to close down two money-losing government-owned metal companies within the next few months provide further evidence of the new pragmatic attitude. The major production facilities of the Taiwan Aluminum Co. and Taiwan Metal Mining Corp. are being shifted to other state companies with better management records.

The disappearance of those two corporations will leave 10 state companies belonging to the Ministry of Economic Affairs. The next step, but still a difficult one for the government to take, is expected to be the denationalization of some of those companies through public sale of stock until the government's share falls below 50 percent.

That step, accepted in principle by top-level decision-makers but not yet shaped into an action plan, has been championed by Wang Yu-yun, the deputy chairman of the government's Commission of National Corporations.

A wealthy private industrialist before turning to politics, Mr. Wang is convinced that government companies face an inherent disadvantage.

"They are public property and have to be governed by a host of restrictive laws and regulations," he said. "Their executives can't possibly enjoy the flexibility of private business in responding to market opportunities."

Yet, Mr. Wang recognizes that certain operations are unsuitable for privatization. He puts the Taiwan Power Co., the island's electricity utility, and Chinese Petroleum Corp. in that category because of their strategic nature.

And he doubts that any private investors would currently be interested in the China Shipbuilding Corp. Due to the depressed international shipping market, plus internal management problems, the company is expected to run nearly \$50 million in the red this fiscal year.

DON SHAPIRO is a correspondent in Taipei for Time magazine and McGraw-Hill World News.

Few Policy Shifts

Continued from page 1

tion as "Taipei, China." The decision disappointed many analysts both in and out of government.

"The benefits of remaining an active participant in the Asian Development Bank should be given priority over our concern for names and what they symbolize," said Lu Ya-li, a political scientist at National Taiwan University. "Unless we break through this way of thinking, we are limiting our options in the international arena."

Taiwan has been preoccupied with the problem of its formal designation since it left the United Nations in 1971. In effect, this is a symbolic continuation of the civil war, from which neither side has been willing to walk away.

As Beijing has steadily gained recognition in the international community over the past decade, Taipei's constituency has dwindled. It now has formal diplomatic relations with only 23 countries, most of them of minor significance.

At the same time, Taiwan's rising affluence has increased the desire of the island's 19 million residents for an international identity that reflects their economic achievements.

Responding to these pressures, some officials have urged the government to build upon the broad network of unofficial ties it has developed through commercial activity, while also emphasizing Taiwan's presence in international organizations and its participation in sports events and other nonpolitical activities.

Supporters of this pragmatic and flexible approach to foreign policy are concentrated among a rising generation of officials in party and government positions. They are opposed to many of

their seniors who continue to stress ideology and historic identity.

The challenge of generational change is just as apparent in foreign policy as it is in the case of the domestic reforms," one analyst said.

There have been changes that many reformers applaud. The decision to remain in the Asian Development Bank, despite the possibility that Taiwan could, in effect, eventually lend money to the mainland, is one. Another is the participation of a Taiwan team in a girl's basketball tournament held in Moscow last year.

But officials suggest privately that any substantial evolution of the island's foreign policy is likely to be blocked until younger officials assume top positions in the party and government apparatus.

To a great extent, the reform of policy will depend on the pace of domestic change. A structural overhaul of the island's three legislative organs, for instance, is eventually expected to remove many lawmakers who enjoy lifetime tenure in them.

In this regard, however, officials are concerned that a more representative political process will lead to proposals for Taiwan's independence, which, in turn, would almost certainly provoke an extreme reaction from Beijing.

"Taiwan has more resources in the international field than it seems to realize," said Mr. Lu, of National Taiwan University. "Given our strategic importance and our economic strength, we must allow ourselves to take some calculated risks."

CHEN HAO is a political columnist for the Taipei-based China Times.

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A Serving Of Big Mac Management

By Bob King

TAIPEI — Just a few years ago, David Sun was a hot new star in the American computer industry. As president of Sun & Fisher System Ltd., a California software consultancy, he counted among his clients such companies as Kaiser Cement and Atari. Then, in 1983, he started his business associates by an abrupt about-face: He moved back to Taiwan and introduced the island to Ronald McDonald.

Mr. Sun's inauguration of the first McDonald's hamburger outlet on Taiwan was an immediate success. For several months, the first outlet on Taipei's prestigious Minsheng East Road set sales records. Mr. Sun's Quanta Foods Ltd. now owns 17 outlets in and around the capital and eight more are under construction.

But success has had its problems, too. From the beginning, Mr. Sun, who was raised in Taiwan, has had to contend with a disgruntled local food industry.

He has had to fend off regular sniping by the local press over such issues as pricing. And he is now hard-pressed by competition from numerous other chains, which owe their presence to Mr. Sun's efforts to open the Taiwan market to foreign fast-food vendors.

These matters aside, though, there is no question that Mr. Sun, who is 40, brought back to Taiwan more than a Big Mac. In fact, he insists that a brief encounter with McDonald's systemized approach to management at "Hamburger University" in Oakbrook, Illinois, back in 1978, opened his eyes to new management styles — styles that are light years away from traditional practices in Taiwan.

Mr. Sun's youngest son, manager, for instance, is 23, and manages an outlet that is doing more than \$2 million a year in sales.

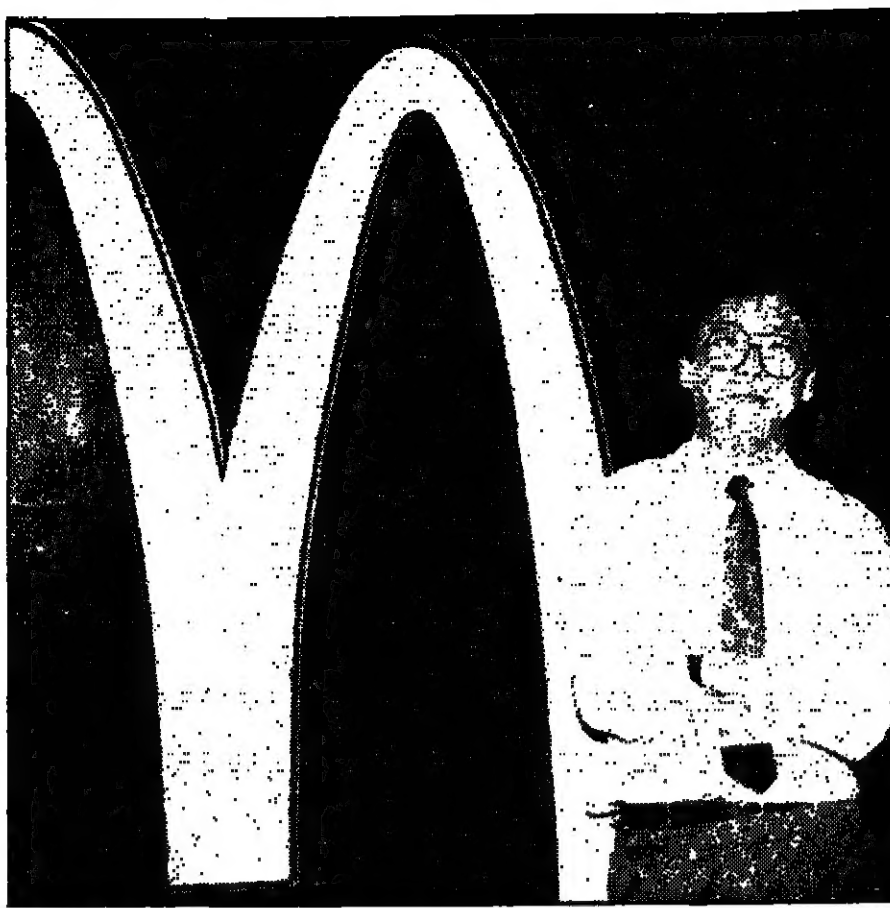
"We train these young people from scratch," Mr. Sun said. "We push the responsibility as far down as possible, and let them make the decisions, because they're the ones who have contact with the customers."

By contrast, typical Taiwanese management styles emphasize central control by one figure, often the head of a family that owns the concern. This central figure makes all the decisions based on information provided by subordinates, who themselves have no overall view.

As elsewhere in East Asia, outmoded management techniques have long bobbled the development of Taiwan's corporate sector.

Mr. Sun sees himself and his associates as "a bridge bringing back management systems to our country."

More than anything else, this attitude reflects a new breed of Taiwanese who, after years of education and work experience in the United States or Europe, are finally returning



David Sun: from computer consultant to hamburger king.

The government hopes that success stories will convince more expatriates to return and contribute their skills.

home in increasing numbers to contribute what they have learned.

About 90 percent of Mr. Sun's top management falls into this category; three vice presidents hold degrees from American universities.

Taiwan is now working hard to attract young entrepreneurs like Mr. Sun and his deputies. According to government statistics, more than 63,000 of Taiwan's best and brightest university graduates went abroad for advanced study from 1971 to 1985, but only slightly more than 11,000 returned.

The return rate for 1986, roughly 25 percent, is encouraging, given a 15-year average of 18 percent, but this still means that three highly-trained Taiwanese remain abroad for advanced study for every one that returns.

There are many reasons for the brain drain. The most obvious, of course, reflects the widely disparate living standards of Taiwan and the developed countries where expatriate Taiwanese tend to study and settle.

Another has been the lack of suitable work assignments in Taiwan for specialized, highly trained Taiwanese emerging from foreign universities. Expatriates develop expectations concerning the quality of life for themselves

and their families that cannot yet be matched by Taiwan.

Many returnees, such as Mr. Sun, have profited greatly from coming home. With their newly acquired approach to problem-solving and a little help from a government happy to have them home, they are able to make the most of whatever they undertake. The government hopes that the success stories will convince more expatriates to return.

"We're in the midst of a transformation to a newly industrializing country, so we need these highly trained people and their resources," said Chiang Chieh-sing, a returnee who now heads the National Youth Commission's overseas Chinese scholars' and students' service center.

To attract expatriate Taiwanese, the center publishes newsletters listing Taiwanese companies seeking highly trained expatriates, as well as the names and qualifications of expatriates who wish to return and are looking for jobs. The center will even pay the air fare home for expatriates and their families willing to give Taiwan a try for at least one year.

BOB KING is the Taipei correspondent of The Financial Times.

Test for 'Tennis Shoe' Economy

By Patrick L. Smith

TAIPEI — No one can fail to see the extraordinary pace at which this island economy has progressed in recent years. New symbols of wealth are everywhere apparent — in Taipei's fashionable shops, its glass-and-concrete office towers and in the rows of luxury apartments that line some city streets.

It is an affluence that would have seemed entirely out of place not long ago. But many visitors now readily compare this still-lush, still-gray capital to the Tokyo of only a decade back.

Last year seemed exceptional only in the magnitude of the island's advance. Powered, as usual, by a substantial rise in exports, gross national product grew at a rate of 10.8 percent, the economy's best performance in eight years.

Officially, per capita income reached \$3,750 — more than triple the level achieved five years earlier. Given the widely acknowledged problem of undeclared funds, incomes are believed to average half again what government statistics indicate, putting Taiwan ahead of several European countries in terms of individual wealth.

But it is not the island's unrelenting success that holds the attention of most economists these days. Of concern now is the difficult transition Taiwan must make as it approaches the brink of full development.

No less than the island's political institutions, the economy and the policies that have shaped it are at a turning point. Fundamentally at issue is the need for both industrialists and government regulators to adjust fully to the stage of development Taiwan has already achieved.

"The challenge for us now is to change many of the ways we do things," said Liang Kuo-shu, chairman of the government-controlled Chang Hwa commercial bank. "The consequences will be very unfortunate unless we learn to utilize our resources more efficiently."

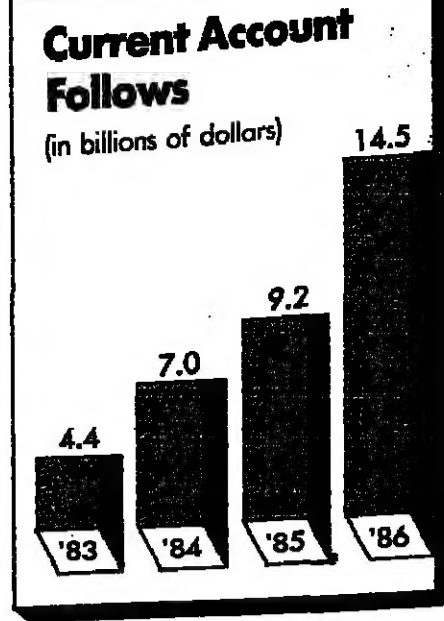
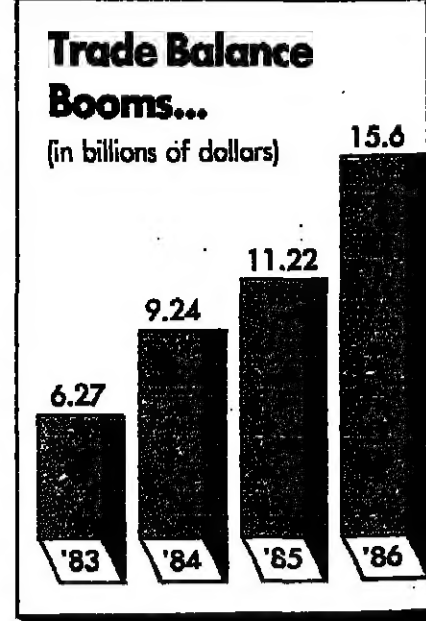
The evidence of this is now as apparent as the island's prosperity. High import barriers helped push the trade surplus to a record \$15.6 billion last year, an increase of almost 50 percent. Reflecting the government's stringent exchange controls, foreign reserves more than doubled in the year ending in March, to over \$53 billion.

As these developments suggest, many of Taiwan's long-established regulations, introduced in an era when security was a priority over innovation and balanced growth, are now critically distorting the economy.

Equally, political uncertainties and a deep sense of confusion as to Taiwan's future direction have retarded domestic investment and contributed to an overemphasis on low-cost, low-technology production at the expense of industrial advancement.

"Too many tennis shoes and transistors," a visiting foreign executive said flatly not long ago, "and too few computers and advanced circuits."

Indeed, the largest contributors to export growth last year were simple electronics, sporting goods, wood products and footwear. In all of these sectors, Taiwan is becoming increasingly vulnerable to competitors such as Malay-



sia, Indonesia, Thailand and China, which many view as the most significant long-term threat of all to traditional export activities.

It is clear why this has come about. Fixed capital formation as a percentage of output has fallen from more than 30 percent at the turn of the decade to a current level of 18 percent. At the same time, the savings rate is now at a record 38 percent of gross national product, many times higher than in most countries at a comparable stage of development.

If the economy is to continue modernizing, economists and other analysts believe, rapid progress in the areas of trade, currency management, finance and investment is now imperative. Related to these issues is a reduction in the island's traditional dependence on exports and a new emphasis on domestic consumption as a source of growth.

President Chiang Ching-kuo signaled official recognition of these structural problems three years ago, when he called for the "internationalization and liberalization" of the economy. Trade barriers were to be dropped, currency controls lifted and Taiwan was to join the Pacific community as an economic presence, if not in political terms.

Until recently, however, progress has been discernible but slow. As a consequence, basic structural problems have now taken on an unexpected immediacy. Everywhere, it seems, there is a sense that the time for solutions is short.

Trade friction with the United States has worsened dramatically this year, reflecting another record merchandise surplus in Taiwan's 1986 trade with its largest trading partner.

Related to this, the rapid growth of foreign reserves has caused the money supply to swell. An inflationary spiral has been averted only because the Taiwan dollar has been allowed to appreciate and the price of oil, Taiwan's largest import item, has been low.

These near-misses have spurred the government to act more decisively on both the trade and exchange control issues. In addition, the

local dollar has been allowed to continue gaining in value against the U.S. currency since authorities began a controlled revaluation last year.

Taipei is also taking a number of steps to stimulate domestic demand. The national legislature is about to approve a budget that calls for record public spending and assumes the first budget deficit, of just over \$2 billion, in more than two decades.

Exports, which jumped 27.6 percent last year, are forecast to rise only 8 percent in real terms, reflecting concern about protectionism and the realignment of the currency. But private consumption is slated to grow by 8 percent, compared with 6.5 percent last year. Overall, the economy is expected to expand by 7.7 percent in real terms.

To help revive domestic investment, the government is moving forward its scheduled outlays on 14 major infrastructure projects around the island, ranging from rail and harbor modernization to new telephone systems and electricity grids. Spending on these projects, on which U.S. suppliers are also being urged to bid, is to total more than \$25 billion through the early 1990s.

Many economists liken the effort to shift toward domestically led growth to the process on which Japan embarked several years ago. They caution, however, that Taiwan's small domestic market and the magnitude of its dependence on exports — they account for 50 percent of output, compared with 20 percent in Japan — mean that the realignment of the economy will be limited.

There are other mitigating factors. Small and medium-sized firms, which account for 70 percent of exports and 70 percent of employment, have long been accustomed to the protection afforded by tariff and non-tariff barriers.

Some have already begun to lose competitiveness as a result of the local dollar's appreciation, according to government and private economists.

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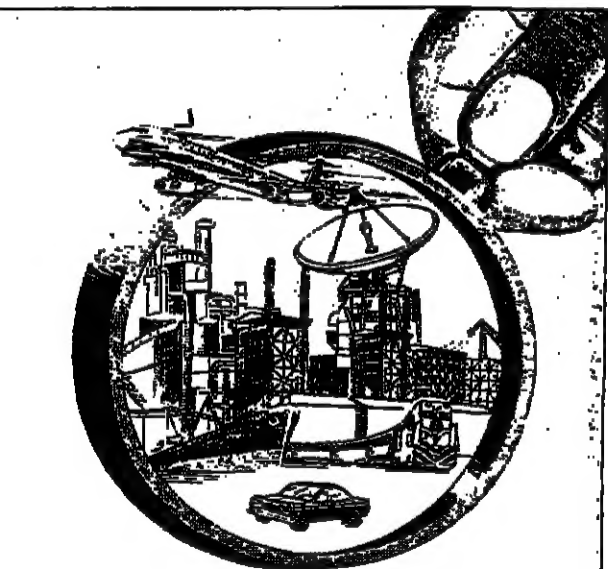


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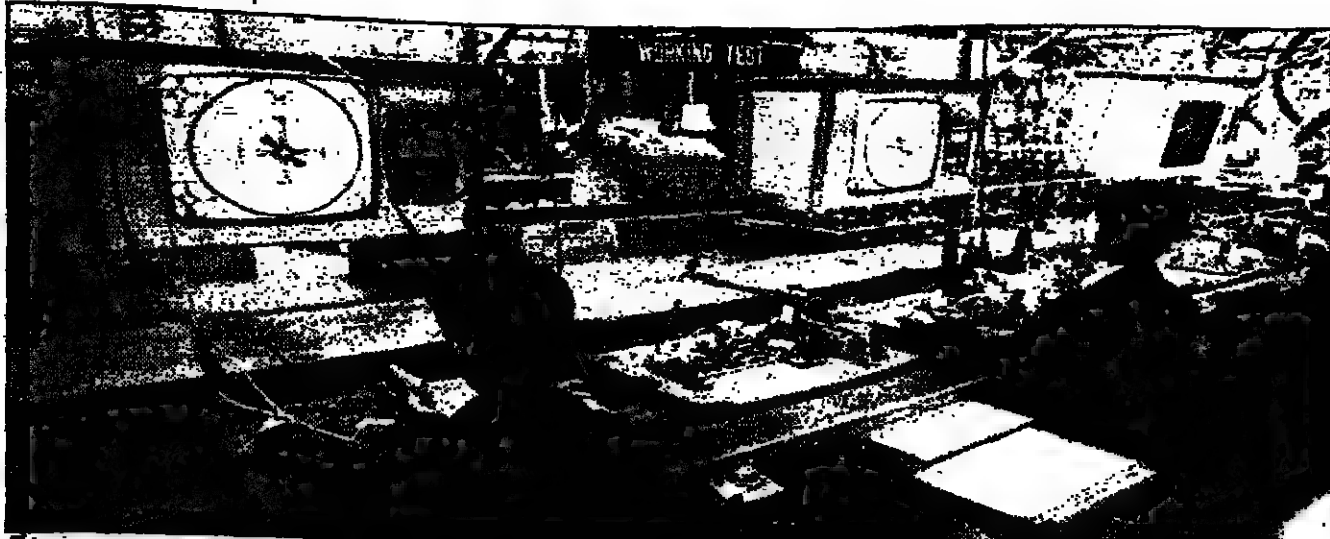
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Volatile Market Nets Strong Gains

By Patrick L. Smith

TAIPEI — Even among the sharply rising share markets of East Asia, the Taiwan stock exchange has been a standout this year.

The island's unusually high savings rate, speculative funds attracted by the appreciation of the local currency and record low interest rates combined to drive up the stock exchange index by more than 40 percent in the first quarter of 1987.

At the end of March, the local index stood at 1,405.51, compared with just over 1,000 at start of the year. Despite such gains, optimism about the future of this relatively young market is readily apparent.

"We could well be in for a correction," said David Tran, president of Kwang Hua Securities Investment & Trust Co., which manages one of four equity funds through which foreigners can invest here. "But we still expect to see a very strong performance over the long term."

With only 130 stocks listed on the exchange, Taiwan's market is among the smallest to attract international attention in recent years. Nonetheless, share trading has grown exponentially since the market was founded, with 18 listings, a quarter of a century ago.

Because brokerage fees are the lowest offered on any exchange, share volume is proportionately among the world's highest. Turnover this year is expected easily to exceed the market's total capitalization of \$20 billion (about \$88 million Taiwan dollars).

This velocity of trading is the more remarkable, analysts assert, given that roughly half of the stock available in the market is closely held by banks and corporate families and is, therefore, rarely traded.

Despite its evident popularity, however, the Taiwan exchange occupies a relatively minor place in the economy. Although a high percent-

age of major corporations are listed, industry is dominated by a multiplicity of companies that are either too small to be listed or uninterested in doing so.

"In this sense, it's hard to buy the Taiwan economy," said Blair C. Pickrell, general manager of Jardine Fleming Taiwan Ltd., "a lot of what counts is simply not made available to investors."

The problem is essentially cultural, reflecting a traditional desire in Asia to keep the control of assets within the corporate founder's family. Like other Asian markets, the Taiwan exchange's role in capital formation is far surpassed by bank borrowings and privately arranged credits.

For the same reason, there has also been a tendency here to list companies only after they have passed their peak. Accounting standards are uneven; corporate disclosure requirements have been difficult to enforce.

As a consequence, Taiwan's market is regarded by the individual investors who dominate it chiefly as a speculative opportunity. Balance sheets, debt and other corporate fundamentals are often ignored; the quality of research available from local analysts is poor.

As a token of the market's unpredictability, the securities and exchange commission maintains a daily limit of 5 percent on stock movements. Trading in a given issue is suspended for the rest of the session once the price moves up or down by that percentage.

Over the past several years, however, the commission has begun trying to improve both the local standing of the market and how it operates. Officials view this as part of a much broader effort to strengthen the island's traditionally weak financial sector.

The commission allowed foreign institutions to invest locally for the first time in 1983. By the end of this year, each of the four funds now established will also operate an adjacent "domestic fund" limited to holders of Taiwan dollars.

Although overseas funds account for a small percentage of total investment, financial regulators also hope the presence of a foreign element in the market will help improve local standards in the fields of research, accounting and broking.

Earlier this year the securities commission took another step in this direction in ruling that broking, underwriting and margin lending, which have been executed by separate firms until now, can be combined under one roof. A package of such revisions is now being debated in the national legislature.

On the supply side of the equation, the government encourages new listings to cut high levels of debt and hasten the pace of capital investment. Listed companies get a reduction of several percentage points from the corporate tax rate of 25 percent; officials also make "promotional visits," as one put it, to companies they think should be listed.

As a result of such efforts, an average of five companies annually have come to the market over the past few years. This year analysts expect 10 to do so.

Natural factors are also coming into play. A new generation of entrepreneurs is helping to modernize prevailing attitudes toward company ownership, management and equity finance. Executives in high-technology fields, where venture capital has played an important role recently, will eventually have to wean themselves from their original backers.

"We're entering a new phase in terms of how we compete internationally," a U.S.-educated executive at a local computer concern said in a recent interview. "What used to be sufficient in terms of capital no longer will be."

Fundamental factors — among them the strength of the economy, low oil prices and a stimulative national budget for the fiscal year beginning July 1 — suggest that the boom in share prices is unlikely to prove a short-lived phenomenon.

Cash Balloon Threatens to Pop

'The buildup in reserves is one reason Taiwan has done so well.'

By Bob King

TAIPEI — Imagine, if you will, a country whose banks are unwilling to accept deposits because they cannot find borrowers and where financial authorities have come to limit capital inflows as well as outflows. Imagine this and you have a picture of this island state today.

After years of record trade surpluses, Taiwan is awash in cash. And because the central bank collects almost all foreign-currency earnings and issues Taiwan dollars in exchange, both the money supply and the central bank's reserves have ballooned to levels that could trigger a severe inflationary spiral.

At \$53 billion, Taiwan's reserves are now the world's third largest after those of West Germany and Japan. The inefficient use of surplus capital — and the maintenance of stringent exchange controls years after they could have been safely lifted from an economic point of view — underscore how underdeveloped the island's financial system remains, despite its place as the world's 11th-largest exporter.

"The buildup in reserves is one reason Taiwan has done so well," said Frederick C. Copeland, Citibank's corporate officer in Taipei. "But now there is an urgent need at the top levels of government for a solution."

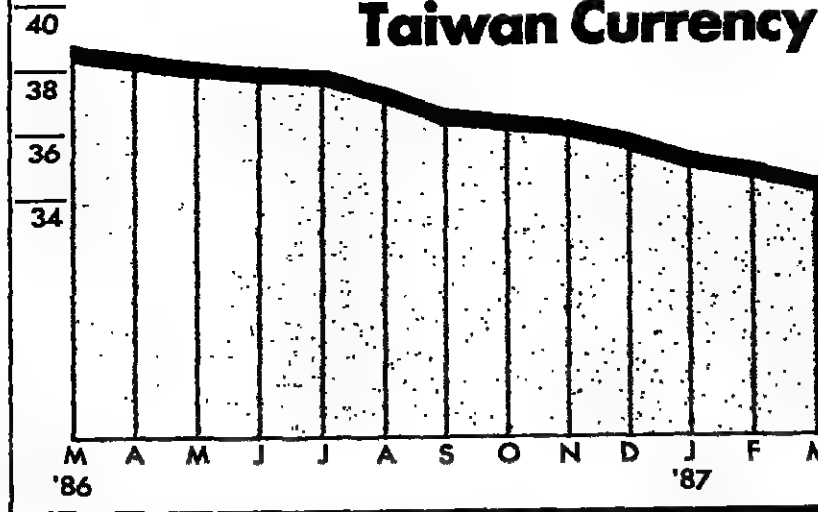
The Taiwan dollar's appreciation against the U.S. currency over the past year or so has substantially increased the upward pressure on both reserves and money supply. About \$7 billion in speculative money entered the country last year, according to unofficial estimates. Local banks exchanged \$3 billion in their own reserves during the same period.

The money supply grew by 38 percent last year and is now increasing at a yearly rate of 50 percent. Foreign reserves more than doubled during the year to the end of March; they are now growing at a rate of \$2.5 billion monthly.

For local banks, all of which are either owned outright by the government or have a majority share held by the government, the liquidity problem is worsened because they have grown wary of lending to local companies, many of which offer balance sheets that do not necessarily reflect their true financial positions.

Although any move to lift capital controls is unlikely to be effective until the Taiwan dollar ceases to appreciate, the central bank has argued vigorously in favor of this step in recent months. In addition to acting as the repository of Taiwan's net export earnings, the bank has been buying up to \$250 million daily over the

Dollar Boosts Taiwan Currency



past year or so to regulate the local currency's rise.

The central bank also issues savings certificates, bonds and treasury bills to reduce the level of local liquidity — buying back in effect, a portion of the dollars it issues. This operation, known as foreign exchange "sterilization," has cost the central bank almost \$900 million in interest payments over the past 12 months.

More than a year ago, authorities took the first tentative steps toward easing the problem of excess liquidity by allowing local institutions to invest in external funds managed by five domestic banks.

These funds purchase sovereign and bank paper abroad. But they have hardly made a dent in the growth of reserves: Fixed maturity rates have made the funds unattractive, given the risk that must be assumed as to future exchange rate fluctuations.

In early March, the government further eased restrictions on capital outflows and began inhibiting inflows of more than \$10,000 for individuals and \$1 million for businesses. The latter measure led many analysts to conclude that the central bank was "desperate," as one analyst said, to ease the threat of inflation.

Now the government appears to be on the verge of more drastic measures. Late last month, Prime Minister Yu Kuo-hua instructed the central bank to prepare for the removal of exchange controls altogether.

"We should suspend controls when the trade surplus is too high," Mr. Yu said, while retaining the legal authority to reimpose them "for use in an emergency."

Mr. Yu cautioned that lifting controls would not solve the problem of excessive reserve growth in the short term; rather, he advanced the change as part of a long-term process of financial liberalization.

Despite the tentative tone of Mr. Yu's re-

marks, financial executives believe that their implications are sweeping.

"Although strong barriers on inward remittances may remain, companies and individuals could be free to remit foreign exchange abroad," said one European banker in Taipei. "This will make it much easier for industry to invest overseas."

Reflecting such views, many foreign bank branches in Taipei have recently begun preparing to assume a role in managing large-scale capital outflows. Last month, a number of banks gave a seminar for key individuals and financial institutions to introduce a variety of fund-placement options.

"Almost every big bank has been watching the position of the government regarding foreign investment," said Jacques Savary, general manager in Taipei for Banque Nationale de Paris, which took part in the session.

Such a role would be a welcome addition to the activities of the 33 foreign banks with branches in Taiwan, many of which have been saddled with bad loans in the past. Reflecting heated lending competition and irregular accounting practices, problem loans made by overseas banks peaked at some \$600 million a few years ago.

But regulatory revisions have already begun to improve the positions of foreign banks. The government has dropped restrictions prohibiting foreign banks from doing business in export processing zones — formerly a preserve of local institutions.

It has also permitted foreign banks to expand from one branch to two. Hollandsche Bank-Unie of the Netherlands has already opened a branch in the southern port city of Kaohsiung, where it hopes to tap the trade-finance market.

Citibank has plans to follow suit, concentrating on consumer financing.



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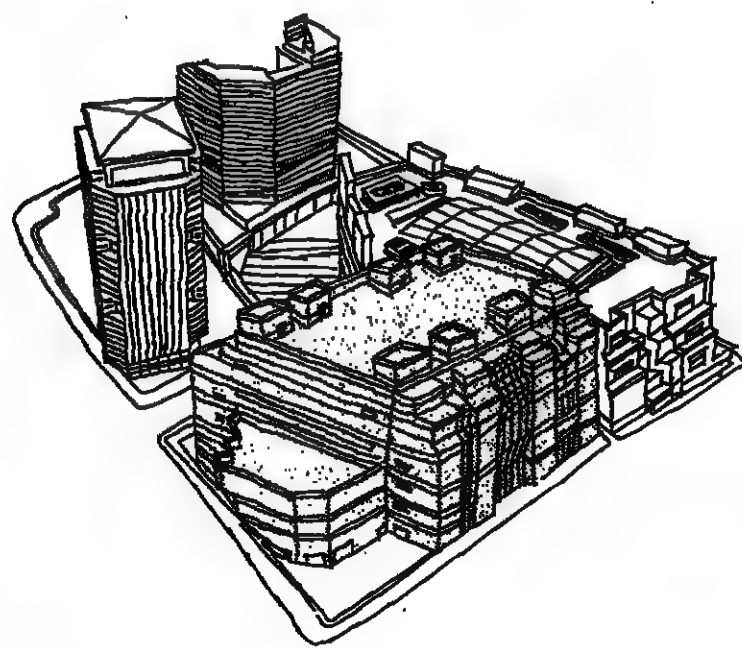


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A Challenge to Kuomintang

Opposition Shakes Up Legislature

By Patrick L. Smith

TAIPEI — Only a few months ago, Taiwan's Legislative Yuan was all but ignored as a body that approved, almost automatically, policies handed down from the Kuomintang government's executive branch.

But since its current session opened in February, the 324-seat chamber has been virtually remade, partly as theater, partly as symbol and partly as the venue of the opposition's most direct challenge to the ruling party's authority.

Reflecting the Kuomintang's claim to rule all of China, most of the Yuan's seats are held by nominal representatives of mainland provinces and are therefore not subject to election. As a result, the average age among the Kuomintang majority has climbed steadily over the years and is now about 80.

Before the legislative elections in December, political opponents allied in a loose-knit group known as the "Tangwai," which translates as "outside the party," held half a dozen of the 73 seats open to local balloting.

It is unclear how quickly the Legislative Yuan and Taiwan's other legislative organs, the National Assembly and the Control Yuan, will be restructured as part of President Chiang Ching-kuo's reforms. But the new presence of the Democratic Progressives in the lawmaking Legislative Yuan has already placed the once-sleepy body at the center of the island's rejuvenated political life.

Many of the small protests that are held almost daily in the capital take place in front of the palm-lined drive leading to the Yuan. Galleries are filled to capacity when opposition legislators are scheduled to speak during the twice-weekly sessions.

The Democratic Progressive Party holds 12 seats in the Yuan and 11 of 905 seats in the National Assembly, which elects the president

"This is the first chance the Taiwanese majority has had to break the absolute control of the Kuomintang. We believe we better grab it while we can."

and vice president and is empowered to amend the constitution. It won roughly a quarter of the overall vote in December.

Although it has carefully avoided the long-term question of independence for Taiwan, the tone it has set in Yuan sessions has been openly confrontational.

A fistfight broke out on the first day; symbolically, several members have since spoken only Taiwanese in the chamber, a dialect that is incomprehensible to the Mandarin-speaking mainlanders who dominate the Kuomintang.

"This is the first chance the Taiwanese majority has had to break the absolute control of the Kuomintang," said Kang Ning-hsiang, a leading opposition legislator. "We believe we better grab this chance while we can."

Chief among the issues the party has so far engaged is the national security legislation that is to be implemented when martial law is lifted. Opponents contend that the bill is far too stringent, making the removal of martial law restrictions little more than a gesture.

"The ruling party is still trying to dominate politics here," Mr. Kang said. "We see the national security bill as one example of how."

Opposition members have also mounted a steady attack on Prime Minister Yu Kuo-hua, at one point even reading the name of an

alleged mistress into the legislative minutes. In part, this reflects the generally low level of the prime minister's popularity.

More important, however, the Democratic Progressives are questioning the established practice by which the prime minister answers directly to the president, instead of the legislature. The underlying issue, they say, is the establishment of rule by law over traditional lines of political authority.

More striking than these issues, however, have been open discussions in the legislature of subjects long considered taboo in Taiwan. Among these is the massacre of about 10,000 Taiwanese shortly after Nationalist troops arrived in force in February 1947.

The event has been a significant factor in the alienation of the island-born majority from the Kuomintang. Several younger Kuomintang legislators were among those who raised it — a token, local commentators say, of the ruling party's new awareness of its need to compete.

"The time has come for us to own up to these things," said Wu Der-mei, a Kuomintang legislator, in urging a government report on the issue. "It's necessary for national unity and for us to have the respect of our people."

Legislators from both parties have also called for the opening of communications links



Students from National Taiwan University demonstrated in March to demand greater student democracy.

with mainland China and a reconsideration of Taiwan's long-standing "three no's" policy toward China, which bars contacts of any kind, negotiations and compromise.

Early in April, a committee of Kuomintang legislators asserted that proposed legislation should be submitted to the Yuan before being reviewed by the party's central standing committee, as it is now. Analysts view this as another part of the broad effort to strengthen the island's political institutions.

It is unclear whether the new opposition party, which has 1,500 charter members, is gaining popularity among Taiwanese, who are of Chinese extraction but who arrived in earlier waves of emigration from the mainland. But party leaders are now establishing a network of branches throughout the island.

Not is it clear what the long-term role of the party will be. Effectively, the Democratic Progressives are assuming the role of a "loyal opposition," although no party official is will-

ing to advance this as the object of the party's effort.

At the moment, the party appears to be developing a division between the organizing cadres who laid the groundwork for the party's formation and the legislators who now represent it.

"They are not very balanced right now," Eugene Chien, a Kuomintang legislator, said of his opponents. "No one has really come to represent all of them yet."

Reforms Loosen Reins on Politics

Continued from page 1

chants, students, the disabled — have suddenly become commonplace occurrences. Kuomintang officials are competing for popular favor more vigorously than they ever have before.

These developments have increased conservative opposition to Mr. Chiang's reforms, which has been apparent among senior party leaders and military officers since last year. But the sudden flowering of political life has also helped to assure, many analysts believe, that the president's reform effort is not reversed despite continuing resistance.

"Our style of political expression is totally different now," a young political activist said with enthusiasm in a recent interview. "People no longer simply accept the government's dictates. Even the ruling party has changed."

The political challenge facing Taiwan is familiar throughout this increasingly affluent region, particularly in its Chinese and Chinese-influenced societies. Rapid economic progress, underwritten by a strictly ordered social hierarchy, has led ineluctably to demands for more representative political institutions.

To varying degrees, South Korea, Singapore and China are faced with the same fundamental question: how to strengthen the framework of government to allow the nation to advance beyond traditions that place powerful personalities at the center of authority.

Pressure for such change increased sharply in Taiwan last year, when activists staged the largest demonstrations in the island's recent history. Mr. Chiang's more specific concerns were to gain greater public acceptance for the Kuomintang and to ensure a stable political succession.

Mr. Chiang, who is 77 and in poor health, has long advocated the gradual "Taiwanization" of both the party and the government. While few Taiwanese have achieved positions of influence in either institution, the president now appears to be speeding up this process.

In disclosing his reform drive last year, Mr. Chiang designated Lee Teng-jui, a 63-year-old Taiwanese scholar, to succeed him as head of state. In this context, political reforms are intended to protect Mr. Chiang's succession formula, which appears to leave powerful party posts in the hands of a collective leadership.

The risks are enormous. The ruling party has justified its firm grip on power over the past four decades by its fundamental claim to be the rightful government of all China.

This has enabled it to relegate Taiwan to provincial status, giving the military an outsized role in politics and administration and leaving the organs of government in the control of officials who nominally represent other mainland provinces.

Apart from the potential dilution of the Kuomintang's power, Mr. Chiang's liberalization raises the larger question of Taiwan's international status. It is still unclear whether even a partial devolution of power in Taiwan will lead eventually to calls for inde-

pendence by the island-born majority.

There is no indication that Mr. Chiang intends to abandon historic claims that have been raised to the level of state ideology. While foreign policy has been another area of reform, no change in government's basic posture toward the mainland is expected.

At home, the government has set the acceptance of the constitution, a basic anti-Communist outlook and a rejection of independence as preconditions for its tolerance of opposition activity.

The president is almost certain to have anticipated the resistance he has encountered over the past year. Apart from the immediate issues he has raised, conservatism and reform have been the poles of Chinese politics for centuries, much as federalism and state rights are recurrent themes in American political debates.

Equally, there is no certainty that power will not be recentralized once Mr. Chiang passes from the scene. In the government, the military and in industry, many voices have already been raised against the drive to liberalize. "Politically speaking, we are still a developing country," one Kuomintang member said recently. "Although Western ideas are gaining acceptance, Chinese culture is still the strongest influence. You can't ignore that."

Because many of those opposed to the president are among his longtime allies, Mr. Chiang has sought to avoid a damaging split in the Kuomintang by seeking a consensus over a period of time. Many reforms, including the lifting of martial law, have accordingly been deferred from their original schedule.

At the same time, the president has been steadily replacing old guard leaders in the party and the government bureaucracy. Last year, for instance, he named his half-brother, Chiang Wei-kuo, head of the National Security Council and appointed the first civilian defense minister since he held the post himself in the late 1960s.

Both appointments were viewed as an effort to isolate the military from the succession process.

Earlier this month, the Kuomintang Central Committee approved an extensive list of cabinet and party changes proposed by the president. Typical of the president's appointments was the replacement of Huang Shao-ku as head of the national judiciary. Mr. Huang has held senior party and government posts since the 1930s, but in recent months he has backed a number of provocative measures taken against the opposition.

Mr. Huang was replaced by Lin Yan-kang, a deputy prime minister, who is native Taiwanese and who enjoys a broad public following.

Many of those promoted, like the president himself, are viewed less as liberals than as "neo-conservatives," as one party member said, who have come to accept the necessity of a degree of democratization in the political system.

PATRICK L. SMITH, a journalist based in Hong Kong, contributes regularly to the International Herald Tribune. He coordinated this Special Report.

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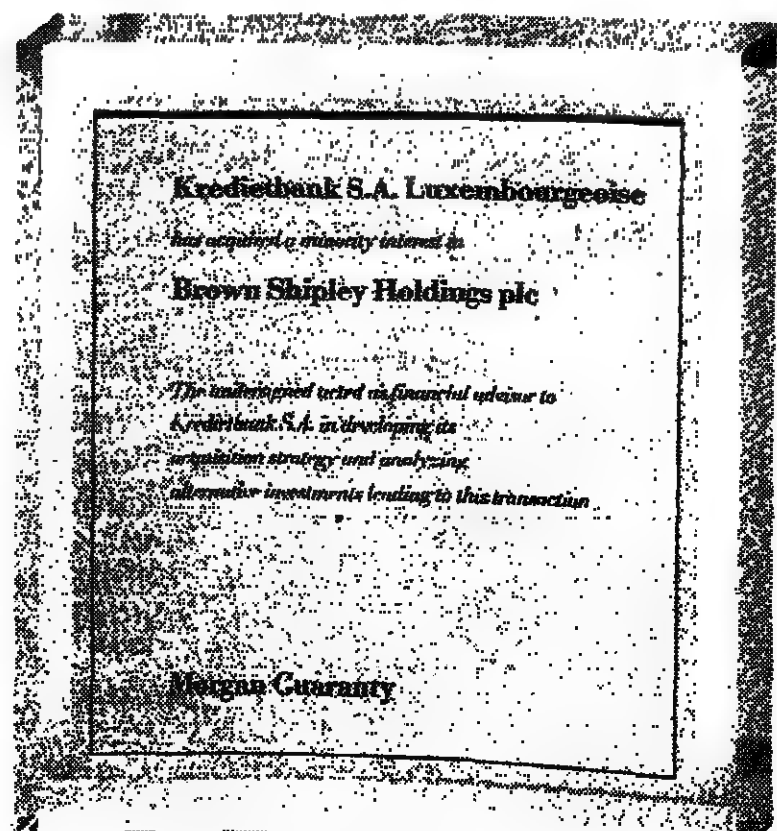
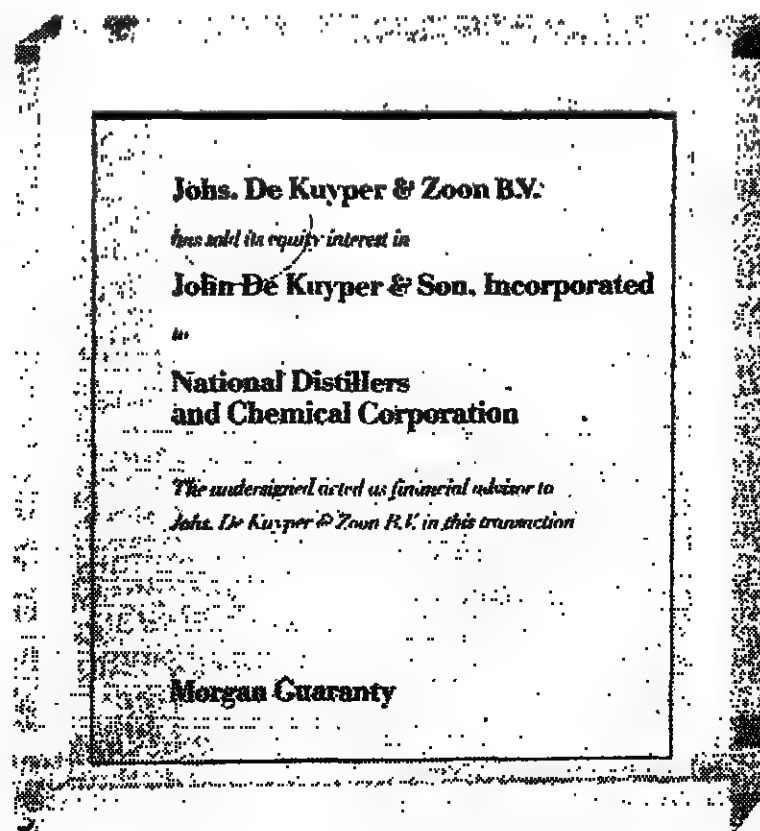
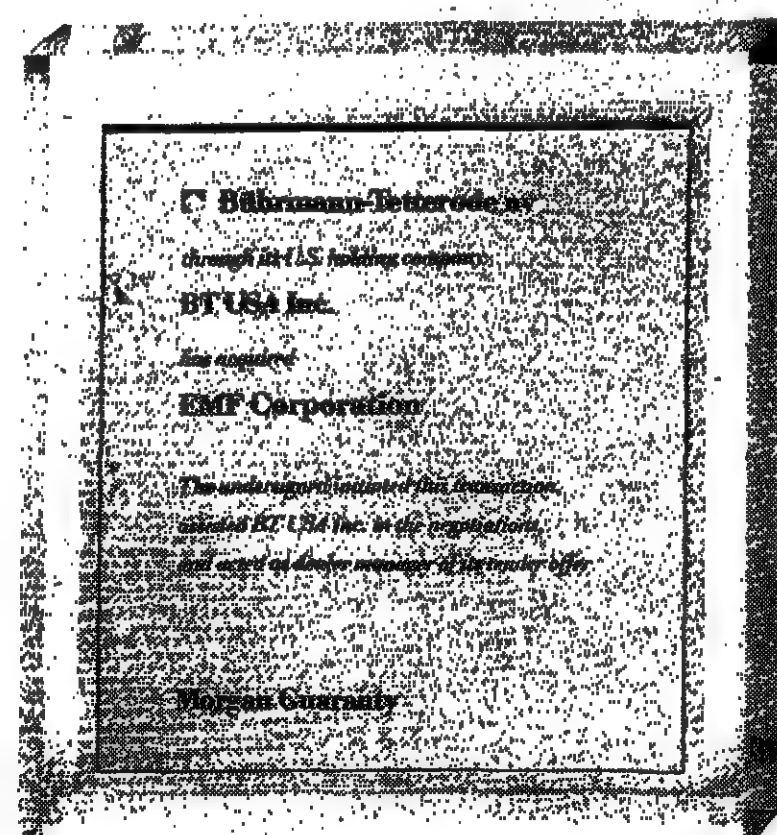
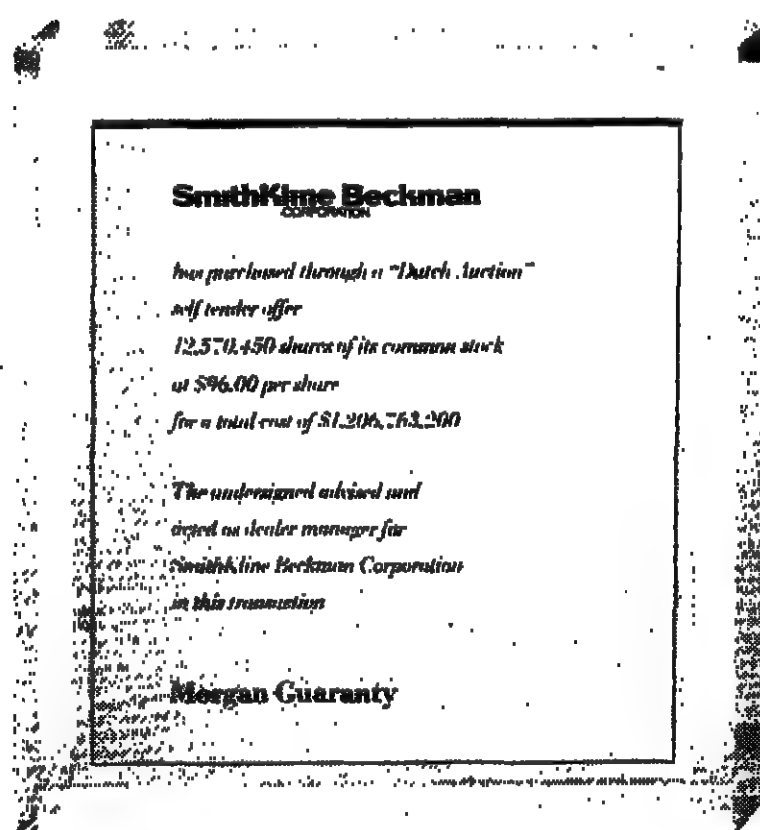
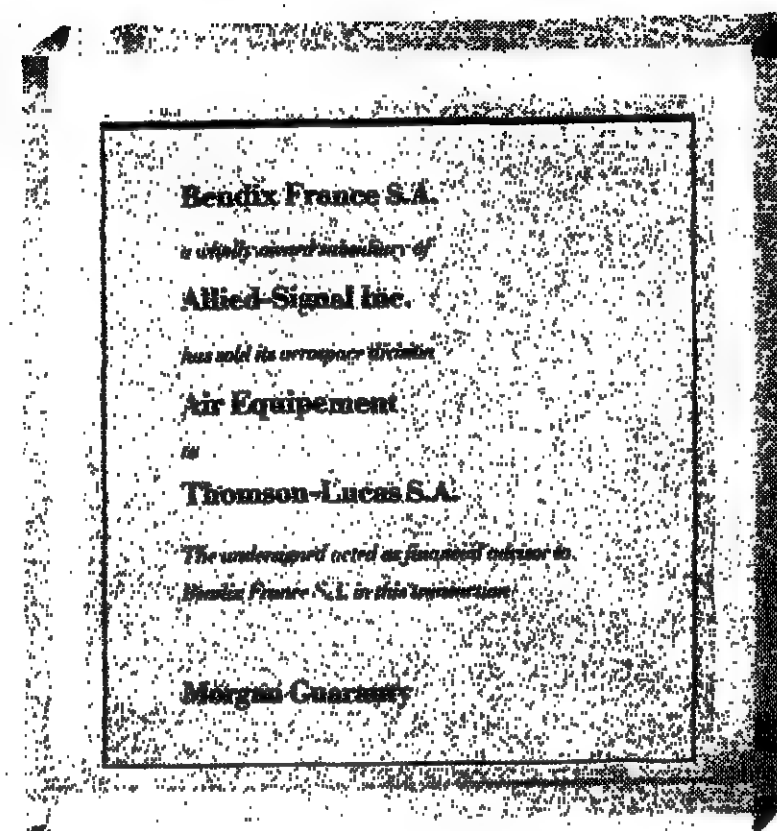
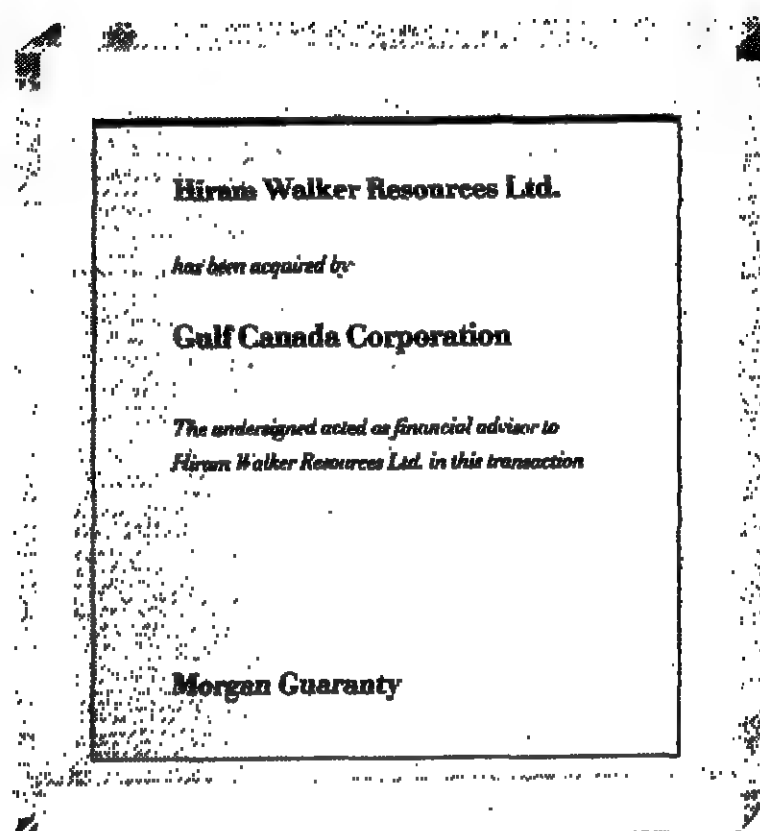
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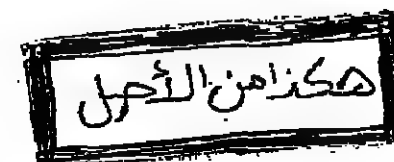
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Dollar Crisis Jolts Bonds
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By CARL GEWIRTZ
International Herald Tribune

PARIS — The crisis in the foreign exchange market spilled over into the markets for U.S. stocks and bonds last week, spreading uncertainty and sending bond prices sharply lower and yields sharply higher. The yield on the bellwether 30-year U.S. Treasury bond ended at a 14-month high of 8.7 percent, up almost half a percentage point on the week. Many dealers expect it will test the 9 percent level this week.

Anxiety about the accelerating rate of U.S. inflation was a major depressant, and the continuing decline of the dollar exacerbated worries. The anxiety also was reflected in the soaring price of precious metals, the traditional safe harbor. The price of gold jumped \$24.45 an ounce to a four-year high of \$462.20 while silver, at a three-year high, climbed \$3.86 to \$9.66 an ounce.

On the foreign exchange market, traders took no notice of the coordinated central bank intervention aimed at stabilizing rates and at permitting a very sharp increase in interest rates.

That increase, substantially widening the difference in income to be earned in dollars over investments in yen or in Deutsche marks, has so far failed to arrest the dollar's decline. Yields on 10-year government paper in yen fell Saturday to 3.1 percent while investments in Deutsche marks yield 5 1/2 percent.

Some dealers said the market doubted the Fed's tolerance for higher rates. Many fear that the increase is temporary and designed to assure a smooth placement of the Treasury's quarterly funding of the budget deficit next month, when it is expected to sell \$28 billion to \$29 billion of bonds and notes.

A big concern is how much paper will be bought by Japanese investors, who up to now have accounted for 30 percent or more of Treasury sales.

The dollar closed in New York at 139.35 yen, a postwar low, down from 143.10 a week earlier, and at 1.7845 DM, down from 1.8162 DM. "The situation is preoccupied," said a central banker who asked not to be identified. "It's a very risky game, indeed. Frankly, I'm worried."

THE "GAME" he was referring to, and one that foreign exchange speculators have obviously caught on to, is a high-stakes test of wills between central banks and their political masters who control economic policy.

The central banks are fulfilling the commitment made at their February meeting in Paris to try to stabilize rates, but the politicians have failed so far to live up to theirs.

"Surplus countries committed themselves to follow policies designed to strengthen domestic demand and to reduce their external surpluses," the Paris communiqué stated, while "deficit countries committed themselves to follow policies designed to encourage stability, low-inflation growth while reducing their domestic imbalances and external deficits."

There has been some movement to comply with these goals, but clearly not enough to convince anyone that a fundamental change in the global imbalances is to be expected. And as long as that is not in sight, the dollar will remain under attack.

"Officials in Japan and West Germany continue to view the dollar as weak, rather than the yen or Deutsche mark as strong," said Henry Kaufman, an economist with Salomon Brothers. "While policy is thus stalemated, statements from U.S. officials that all members of the Group of Seven are committed to stable exchange rates are small comfort to the financial markets."

"The hard reality," said Rimmer de Vries, Morgan Guaranty Trust's economist, "is that we're headed for an overshooting of exchange rates" that is driving the dollar well below the levels that officials or private economists deem necessary to cut the trade deficit and still allow room for export-supported economic growth in Japan and West Germany. The overshooting, Mr. de Vries said, should "bring political leaders around" to adopting the policies the foreign exchange market is seeking.

The Fed's tolerance of rising interest rates, which in large part have been forced upon it by market forces, is particularly worrisome because it raises the specter of this year's already lackluster rate of U.S. economic growth tipping into a recession next year. A recession easily could turn into a nightmare because of the Latin American debt crisis.

The Fed appears to be saying that the U.S. current-account deficit shall be cut, if not by the dollar's depreciation then in combination with an economic slump. The challenge then is to persuade economic policy makers in Washington as well as Bonn and Tokyo to adopt the measures needed to accomplish the goal with less global pain.

Reports from Tokyo last week said that the ruling Liberal Democratic Party had drawn up a plan to expand domestic investment.

See EUROBOARDS, Page 11

UAL Inc.
Rejects
Pilots' Bid

Board Says Offer
Is 'Inadequate'

By Stephen Phillips
New York Times Service

CHICAGO — UAL Inc. directors have rejected a "grossly inadequate" \$4.5 billion offer from the pilots' union to buy the United Airlines subsidiary.

The decision came as no surprise. UAL had said previously that it wanted to remain an integrated travel services company. UAL also owns Hertz Corp., car rental service and Western Hotels, and recently acquired Hilton International hotels.

UAL also reported on Friday that it had reduced its first-quarter loss to \$30.5 million, from \$103.1 million a year earlier, while revenues increased 21 percent to \$2.37 billion, from \$1.96 billion. Its stock closed Friday at \$69, down \$1.75, on the New York Stock Exchange.

For United Airlines, one of the biggest U.S. carriers, the net loss for the quarter was reduced to \$4.4 million, from \$107.3 million, on revenue that rose 25 percent, to \$1.85 billion from \$1.48 billion.

On the pilots' offer, UAL's board said: "Even if the proposal were for all cash, and unconditional, in the company's view and the view of its investment adviser the value which the proposal appears to assign is grossly inadequate."

UAL, which will change its name to Allegis Corp. on Friday, said the board had determined that the airline and its reservations systems were essential to the strategy of providing integrated services.

That strategy has drawn fire recently. Last month, UAL became the subject of takeover rumors when Donald J. Trump, a New York developer, was said to have accumulated about 5 percent.

That was followed by the offer from the pilots, who have been at odds with UAL for some time over in-flight catering.

Officials at the United chapter of the Air Line Pilots Association could not be reached for comment, but analysts said they expected the pilots to counter with a higher offer.

Salomon Brothers, retained by the pilots to line up financing, said Friday it was confident it could raise \$1.5 billion. The pilots said the rest would consist of assumed debt, commercial bank loans and funds from the pilots.

Wrigley Hopes New Pack Will Stick

Bucking Trend,
Gum Giant Sells
5 for 25 Cents

By Stephen Phillips
New York Times Service

NEW YORK — It's hardly a new concept: five sticks of gum for a quarter. What is new is that William Wrigley Jr. Co. is the first to bring it back.

The staid — some say stodgy — chewing gum giant typically takes its marketing cues from competitors, rousing itself only when its supremacy is threatened. So its rivals were surprised a few weeks ago when Wrigley introduced a five-stick pack for 25 cents.

"It's unusual and bucks the industry trend," said John F. Walsh, president of American Chicle Group, the Warner-Lambert Co. subsidiary that makes Trident and Dentyne gums.

The trend is toward 15-to-17-piece packs at a lower per-stick price. But Wrigley, the No. 1 U.S. gum maker, wants to get more Americans into gum chewing. Company officials say the five-stick packs of Doublemint, Spearmint, Juicy Fruit and Big Red could tempt non-chewers to try some.

"Hopefully, we can rekindle interest in the confection industry," said Ronald O. Cox, Wrigley's vice president for marketing.

The \$2.5 billion retail gum industry could use a boost. Though consumers are snapping up sugary gum, unit sales for sugared gum in seven-stick packs are down almost 40 percent since 1980.

Wrigley says that higher pricing is the culprit and that its five-stick pack will distinguish Wrigley from other confection products. "Name one thing you can buy for 25 cents," said Mr. Cox.

Competitors, caught off-guard by Wrigley's unusual display of initiative, have begun to respond. American Chicle called the five-stick pack "poor value to consumers" because it is linked with a price rise on Wrigley's seven-stick pack. It also said the move was a response to its own Sticksies, a 30-cent pack of nine extra-thin sugared gum sticks.

Wrigley countered that it was the last to raise prices on seven-stick packs. It also denied the copycat charge, saying the plan had been in the works for two years.



Stacking gum at Wrigley's Chicago plant.

Analysis said they were not sure why Wrigley, whose sugared gums are already outselling the competition, made the first marketing move this time. But they said the move might reflect behavior for more reflection changes at the company over the past decade.

Wrigley, founded more than 75 years ago, is still a cautious operation. Its Doublemint Twin advertising campaign, for example, has been running virtually unchanged since the 1950s.

"This is the most conservative company we will ever see," said Robert Back, an analyst with Rodman & Renshaw in Chicago.

But starting in the 1970s, when rivals ate away its lead, Wrigley was forced to change its ways. As American Chicle brought out Trident and as Life Savers, which is now part of RJR Nabisco, introduced Care Free and Bubble Gum, Wrigley found that it was not enough just to bring out its own new products.

Orbit, its first sugar-free gum, did not come out until 1977, and ran into trouble after its main sweetener, xylitol, was judged a possible carcinogen.

Big Red and Freedent came out a bit earlier, but were not big sellers. Wrigley's share of the gum market, at about 75 percent in 1973, plummeted to about 33 percent in 1977, which meant it shared the No. 1 spot with American Chicle.

Seoul to Buy
\$2.62 Billion
Of U.S. Goods

The Associated Press

SEOUL — South Korea has released a list of \$2.62 billion in U.S. products it plans to buy to keep down its trade surplus with the United States and prevent protectionist measures.

The announcement follows an agreement by South Korea last Tuesday to open its market wider to foreign goods and ease regulations governing imports.

That agreement came after a two-day meeting between the U.S. commerce secretary, Malcolm Baldrige, and Korea's trade and industry minister, Rha Woong-hae.

Mr. Baldrige was in Seoul to keep more U.S. access to Korean markets. The United States buys 40 percent of Korea's exports.

The Korean shopping list, announced on Saturday, includes \$2.14 billion in capital goods, raw materials and farm products to be bought by government agencies.

The government said this would help freeze the merchandise trade surplus with the United States at the 1986 level. The surplus grew to \$7.4 billion last year from \$4.3 billion in 1985.

The government plans to provide \$2.5 billion out of its foreign exchange reserves for low-interest loans to finance the purchases.

The government also said it would widen the market for U.S. goods and services, reduce tariffs, remove other import barriers and restrain some exports to improve the trade balance.

To improve U.S. sales in Korea, the government said it would establish a service network for imported machinery, set up consulting offices to resolve difficulties in exporting to Korea, hold a U.S. products show and send private sector buying missions to the United States.

Seoul's private sector shopping list included \$719 million in wheat, corn, soybeans and raw cotton; \$700 million in machinery, electronic equipment and petrochemical plant facilities; and \$425 million in equipment to upgrade small and medium-size industries.

The list also included \$250 million in parts and raw materials for electronics and shipbuilding and \$50 million for stockpiling raw materials, such as aluminum, zinc, polyethylene and cold-rolled steel sheets and plates.

Tool Orders Fell
24.5% in U.S.

Agence France Press

WASHINGTON — Orders for machine tools in the United States fell 24.5 percent to \$464.7 million in the first three months of this year from the first quarter of 1986, an industry group reported Sunday.

The National Machine Tool Builders Association said that deliveries also declined, by 20.3 percent to \$475.90 million.

In March, orders dropped by 23 percent to \$165.2 million in comparison with figures for March 1985. But the value of the orders was 8.1 percent higher than in February.

Deliveries fell by 27 percent to \$181.6 million in March compared with 1986 levels, but rose 23.9 percent above the February figure.

Ex-World Leaders Press
Urgent Action on Debt

By Michael Richardson
International Herald Tribune

KUALA LUMPUR, Malaysia — Six former leaders of Western, Third World and Communist countries will send letters soon to the leaders of seven major industrialized nations appealing for urgent action to reduce the foreign debt burden of developing countries.

The letters also warn that trade friction between Japan, the United States and Western Europe must be quickly defused, sources familiar with the contents said.

The letters will be delivered by early next week to President Ronald Reagan and other heads of government who are to attend the economic summit meeting in Venice in early June.

A statement attached to the letters by the InterAction Council, an international forum for former government leaders, says that "the debt crisis is reaching unimaginable proportions" with no solutions in sight.

Given "the present conditions of foreign exchange and financial markets," the statement also warns, "a wave of increasing protectionism in its various forms could trigger a global recession."

The letters were signed by Helmut Schmidt, the former chancellor of West Germany; the former prime ministers Takeo Fukuda of Japan, Malcolm Fraser of Australia and Manes Maheux of Romania; Oluisegun Obasanjo, who headed a federal military government in Nigeria that handed power back to the civilian authorities in 1979; and Misael P. Borrero, the former president of Colombia.

Mr. Fukuda said that total Third World debt had risen from \$80 billion to \$1 trillion in the past 13 years, threatening to bring "grave damage to the peace and stability of the world."

The signatories of the letters met here last week for the fifth session of the InterAction Council with about 25 other former or incumbent officials from more than 20 countries around the world.

The council was established in 1983 to draw on the experience and influence of its members in seeking to overcome some of the main obstacles to world peace and development. The six men who signed the letters are on the council's executive committee.

In the statement, participants at the Kuala Lumpur meeting said that the leaders who would meet in Venice should make Third World debt a priority issue and a separate topic on their agenda.

THE HASHEMITE KINGDOM OF JORDAN
US\$150,000,000
Medium Term Dual Currency Loan Facility

Lead Managed By
Arab Bank Limited (Arranger)
Al Bahi Bank Group
Burgan Bank S.A.K.
Manufacturers Hanover Limited

Co-Lead Managed By
Credit Lyonnais
Grindlays International Limited
(A member of the ANZ Group)

Managed By
Saudi International Bank
Al-Bank Al-Saudi Al-Ahram Limited

Co-Managed By
Société Générale

Provided By
Arab Bank Limited-OBU-Bahrain
Arab Banking Corporation (ABC)
Gulf International Bank B.S.C.
Standard Chartered Bank
Banque Nationale de Paris
Union de Banques Arabes et Francaises
—U.B.A.F. Bahrain Branch
Saudi International Bank
Al-Bank Al-Saudi Al-Ahram Limited

Arab Jordan Investment Bank, Amman—Jordan
Société Générale, Bahrain
UBAF Arab American Bank
UBAF (Hong Kong) Limited
Banque Internationale Pour L'Afrique Occidentale
UBAE Arab German Bank
Société Anonyme

Currency Agent
Australia and New Zealand Banking Group Limited

Agent
Arab Bank Limited
OBU, Bahrain

Last Week's Markets

All figures are as of close of trading Friday

Stock Indices	April 24	April 16	Change
DJ Industrials	2,326.37	2,275.59	+50.78
DJ Industrials	199.20	194.11	+5.09
VIX 100	19.12	19.09	+0.03
S & P 500	274.97	268.46	+6.51
S & P 500	281.32	284.91	-3.59
S & P 500	334.84	332.78	+2.06
NYSE Comp	159.37	152.29	+7.08

Money Rates	April 24	April 16	Change
FTSE 100	2,001.30	1,949.40	+51.90
FTSE 100	1,588.00	1,540.30	+47.70

Commodities	April 24	April 16	Change
Nickel 225	24,004.26	23,708.25	+296.01
West Germany	1,803.70	1,807.80	-4.10
Commerzbank	2,707.41	2,721.12	-13.71
Hong Kong	462.50	461.50	+1.00

Currency Rates

Cross Rates	April 24	April 16	Change
Amsterdam	2.28	2.24	+0.04
Buenos Aires	21.25	21.25	0.00
London (US)	1.70	1.70	0.00
London (UK)	1.25	1.25	0.00
Paris	5.48	5.48	0.00
Porto	20.45	20.45	0.00
Tokyo	140.8	139.8	+1.0
Zurich	1.36	1.36	0.00
1 ECU	1.36	1.36	0.00
1 SDR	1.36	1.36	0.00

Other Dollar Values	April 24	April 16	Change
Australia	1.53	1.53	0.00
Canada	1.11	1.11	0.00
France	6.55	6.55	0.00
Germany	2.36	2.36	0.00
Italy	1.36	1.36	0.00
Japan	163.6	163.6	0.00
Netherlands	2.20	2.20	0.00
Spain	166.3	166.3	0.00
Sweden	4.66	4.66	0.00
Switzerland	2.00	2.00	0.00
UK	0.79	0.79	0.00
US	1.00	1.00	0.00

New International Bond Issues

Compiled by Anne Potter Hardoux

Issuer	Amount (millions)	Mat.	Cou.	Price	Price	Terms
					end	
					week	
LOADING RATE NOTES						
City of Vienna	\$70	1992	1/16	100	—	Over 3-month Libor, Noncallable, Fees .30%
FIXED-COUPON						
NTN Taro Bearing	\$100	1992	8%	101 1/2	99.50	Noncallable, Fees 1.0%
Minco di Sicilia Int'l	\$30	1992	zero	70.40	—	Yield 7.27%, Noncallable, Proceeds \$20,850 million, Fees 1.0%
Toronto Dominion Bank	\$50	1992	9%	101 1/2	99.75	Noncallable, Fees 1.0%
Nordic Investment Bank	DK400	1992	11	101 1/2	99.75	Noncallable, Fees 1.0%
Royal Trustco	C\$75	1992	9%	101 1/2	97.63	Noncallable, Fees 1.0%
BFG Finance	Aus\$60	1992	14%	101 1/2	101.50	Noncallable, Fees 2%
Creditanstalt Bankverein	Aus\$60	1990	14%	101 1/2	99.88	Noncallable, Fees 1.0%
Federal Business Development Bank of Canada	Aus\$50	1989	14%	101 1/2	99.63	Noncallable, Fees 1.0%
UB Rheinland-Pfalz Finance	Aus\$75	1992	zero	52.75	53.50	Yield 14.0%, Noncallable, Proceeds Aus\$39.02 million, Fees 1.0%
SBC Finance	Aus\$100	1990	14	101 1/2	101.00	Noncallable, Fees 1.0%
Sweden	Aus\$75	1994	13%	101 1/2	100.00	Noncallable, Fees 2%
Chubu Electric Power	¥40,000	1997	4%	101 1/2	99.50	Noncallable, Fees 2%
Kumagai Australia Finance	¥7,000	1992	7%	100	98.13	Noncallable, Interest payable in Australian dollars, Redeemable in yen, Fees 1.0%
Morgan Guaranty Trust	¥25,000	1992	4%	101 1/2	99.63	Noncallable, Fees 1.0%
Morgan Stanley	¥25,000	1993	4%	101 1/2	99.13	Noncallable, Fees 1.0%
World Bank	¥40,000	1997	4%	101	100.25	Noncallable, Fees 1.0%
EQUITY-LINKED						
Cetus	\$100	2002	5%	100	100.00	Callable at 103 in 1990, Convertible at \$27 per share, a 22.6% premium, Fees 2.0%
Chugoku Marine Paints	\$20	1992	open	100	99.25	Coupon indicated at 24%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
Comcast	\$75	2002	5	100	97.25	Callable at 103 in 1990, Redeemable at par in 1994, Convertible at an expected 23 to 27% premium, Fees 2.0%, Terms to be set April 28.
Daiton Industries	\$100	1992	open	100	97.00	Coupon indicated at 2%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 28.
Fujitsu	\$300	1992	open	100	98.00	Coupon indicated at 2%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
Gunze	\$100	1992	open	100	97.25	Coupon indicated at 2%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
J. Bildner & Sons	\$25	2002	open	100	98.50	Coupon indicated at 6 to 6 1/2%, Callable at 101 in 1992, Convertible at an expected 20 to 25% premium, Fees 2%, Terms to be set April 28.
Marubeni	\$300	1992	open	100	100.50	Coupon indicated at 2%, Noncallable, Issued in two tranches: \$200 million in Europe and \$100 million in Asia, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
Mitsubishi Corp.	\$600	1992	open	100	107.88	Coupon indicated at 14%, Each \$10,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set May 14.
Sumitomo Realty & Development	\$500	1992	open	100	106.50	Coupon indicated at 18%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
Suzuki Motor	\$100	1992	2	100	91.00	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
Suzuton	\$20	1992	open	100	—	Coupon indicated at 24%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set May 1.
Tatoh Chemical Industries	\$50	1992	open	100	97.75	Coupon indicated at 2%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
Toyo Soda Manufacturing	\$150	1992	open	100	100.75	Coupon indicated at 2%, Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 27.
Ultramar	E40	2002	6	100	100.00	Callable at 101 in 1992, Redeemable at 117.50 in 1992, Convertible at 234 francs per share, a 9.4% premium, Fees 2.0%
Wates City of London Properties	E30	1994	6%	100	—	Noncallable, Each £10,000 bond with 10 five-year warrants exercisable into company's shares at 185 pence per share, a 5% premium, Warrants priced at £165, are redeemable if not exercised, Fees 2.0%
Life	ECU 40	1992	open	100	—	Coupon indicated at 14%, Each ECU15,000 note with one warrant exercisable into company's shares at an expected 24% premium, Fees 2.0%, Terms to be set April 28.
WARRANTS						
Yamaichi Int'l	\$10	1992	—	\$81.25	—	Each warrant exercisable into one million dollars at \$1.012 per ECU.
Yamaichi Int'l	\$14	1994	—	\$96.13	—	Each warrant exercisable into one million dollars at \$1.012 per ECU.

Fecsa Seeks Record-Low Debt Plan

By Carl Gewirtz

International Herald Tribune
PARIS — If ever there was a debt rescheduling program likely to be dismissed out of hand by creditor banks, it surely is the one being proposed by Fecsa, a privately owned Spanish utility.

Fuerzas Electricas de Cataluña SA, which provides power throughout the Catalonia region and parts of Aragon, last week sent creditors its proposal on how it would like to restructure its foreign debt, which is believed to total around \$1 billion.

Fecsa is proposing that all maturities be extended seven years, and that interest be set at 1% percentage points below the London interbank offered rate for the first three years and 4% point over Libor thereafter.

The company is also proposing a grace period of five years, during which only interest would be paid. Repayment of principal would begin in the sixth year.

The lowest borrowing charge banks have granted so far in any of the sovereign loan renegotiations was a margin of 13/16 point over Libor to Mexico and Argentina.

If banks accepted a sub-Libor margin for Fecsa, they would set a precedent that the debt-stricken developing countries would surely seek to duplicate.

The bankers' dispute with Fecsa risks turning nasty. Foreign banks and Spanish government officials in 1984 that the electrical industry's problems were under control. The bankers interpreted the statement to mean that the government would restructure the industry and bail Fecsa out of any trouble. The government's refusal to do so has a

number of banks threatening to boycott business with Spain.

A measure of whether the dispute spills over to all Spanish borrowers may be shown this week when Autopistas Concesionaria Española SA, a private toll-road

company, comes to the market under the direction of Crédit Commercial de France.

Acesa is seeking a five-year loan of 40 million Deutsche marks and a three-year loan of 25 million Swiss francs. Interest on both elements will be set at 10 basis points, or 0.1 percentage point, over Libor, with front-end fee of 5 basis points.

"It's not a question of whether the terms are skippy," said one London-based banker, "but whether banks are willing to lend" to anyone in Spain while the dispute with Fecsa remains unsettled.

AKZO NV, the Dutch chemicals company, is currently seeking to renegotiate, for the second time, lower terms on a loan originally signed in 1980. Under the direction of Union Bank of Switzerland, the company plans to reduce the size to \$180 million from \$230 million. It is offering to pay an annual facility fee of 8 basis points, compared with the commitment fee of 12 1/2 basis points; and a drawing charge of 15 basis points over Libor, down from 6 1/2 basis points; plus a renegotiation fee of 10 basis points.

Mediocredito Lombardo is seeking \$100 million to finance Italian exports to the Soviet Union. The loan, arranged by First Chicago Corp., will run for seven years from drawdown, which can take up to two and a half years, and will carry interest of 10 basis points over Libor. Underwriters are offered a

front-end fee of 6% basis points.

An earlier loan, carrying a mixed margin of 5, 6 and 7 basis points, had to be pulled from syndication because the low terms found no acceptance, and was taken by the lead managers.

Hokkaido Takushoku Bank of Japan is seeking a \$100 million, five-year credit facility against which it can issue certificates of deposit or request loan advances. The bank will pay an annual facility fee of 5 basis points. Interest on drawings will be set at 5 basis points over Libor, with a utilization fee of 5 basis points if more than half the amount is drawn. Citicorp is arranging the facility.

Bell Group, the holding company of an Australian-based international group, named Merrill Lynch to arrange a four-year, \$100 million revolving revolving underwriting facility. Bell is also establishing a \$200 million Eurocommercial paper program for which Merrill will act as arranger and dealer.

The annual underwriting fee on the credit facility is 12 1/2 basis points. Underwriters commit to accept Bell's Euronotes at a maximum fee of 12 1/2 basis points over Libor and will be paid a utilization fee of 2 1/2 basis points if more than a third of the line is used and a fee of 3 basis points if more than two-thirds is used. In addition, lead managers will be paid a front-end fee of 10 basis points.

New Zealand announced last week that it had appointed two additional banks, Morgan Guaranty Trust and Swiss Bank Corp., to its \$500 million Euro-CP program, joining Citicorp and Shearson Lehman Brothers as dealers in the program, which now includes an option to sell medium-term notes.

EUROBONDS: Political Test of Wills Feeds Anxiety

(Continued from first finance page)
demand and boost imports that Prime Minister Yasuhiro Nakasone will detail during his visit to Washington this week.

The plan reportedly calls for additional fiscal measures worth more than \$5 billion (¥35.8 billion), a large-scale supplementary budget for the fiscal year that began April 1 and concentration of more than 80 percent of the annual public works budget in the first half of the year.

U.S. and European economists say the program sounds impressive. But they remain skeptical, warning that Japan's promises have too often fallen short when implemented.

West Germany's contribution so far has been a promise to cut taxes starting next year, a move that is much too little and too late to achieve the boost in domestic demand urged by the United States.

Meanwhile, the great danger is that central banks through their fruitless intervention in the exchange markets will have fueled an explosion in international liquidity and, ultimately, inflation requiring monetary policy to turn restrictive as the world slips into recession.

The only part of the Eurobond market to benefit from the week's disarray were the long depressed floating-rate notes. The regular quarterly or semiannual resetting of coupons is the best protection for investors in an environment of rising interest rates and dealers raising a notable pickup in retail demand for this kind of paper.

The city of Vienna issued \$70 million of five-year notes bearing a coupon of 1/16 point over the London interbank offered rate, but this was really a private placement and not a re-opening of the new-issue market.

The high-coupon Australian dollar sector remained buoyant and impervious to outside developments. BFG Finance, which offered \$60 million dollars of four-year paper, was probably the first issue ever to end the week trading at a premium (a quarter-point) over the issue price, 10 1/4. Only Federal Business Development Bank of Canada, an unfamiliar name, traded outside the underwriting fees.

Better received were issues from Creditanstalt, Swiss Bank Corp. and Sweden.

The Euroyen market, also active, reflected the widespread expectation that the Bank of Japan would soon cut its 2.5 percent discount rate. Rumors in Tokyo put the cut at half a point, to be announced during Mr. Nakasone's U.S. visit.

The World Bank issued \$4 billion yen of 10-year bonds that bore the characteristics of both a Euroyen issue, with better liquidity in the secondary market, and of a foreign bond issued on the domestic market, by making it immediately available to domestic investors instead of the 90-day waiting period on Euroyen. Dealers estimated the World Bank, which paid

4.689 percent for its money, saved about five basis points by issuing the hybrid rather than a classic Euroyen bond.

Sterling also was in demand although only one issue was launched, for Toronto-Dominion Bank at a yield of 10 basis points over comparably dated gilt.

The equity-linked market was the most active sector, and as usual dominated by Japanese issuers. These were a mixed bag. Sumitomo Realty ended the week at a premium of 6% percent and Mitsubishi Corp. at 7% percent.

At the other extreme, companies most reliant on exports, Suzuki Motor traded at a discount of 9 points while Fujitsu was down 2 points, Gunze 24 points, Daiton Industries 3 points and Chugoku Marine Paints 4 points.

Ultramar, the British oil company, increased its issue by \$5 million to \$40 million and ended the week

at par as did Cetus, the U.S. biotechnology firm whose interlocking 2 shows promise in reducing cancerous tumors.

Wates City of London Properties offered \$30 million of seven-year bonds bearing warrants that will be redeemed for cash if not exercised, a rarely used formula that limits the risk of investors.

Japanese investors were reported to be actively buying European currency units. On offer last week were currency warrants from Yamazaki to purchase ECU and a warrant bond for Life Co., one of Japan's largest consumer credit companies.

The \$40 million in ECU bonds is expected to carry a coupon of 1 1/2 percent, the lowest coupon yet seen on an equity-linked issue, with warrants to buy stock at an expected price of 2% percent over the prevailing Tokyo Stock Exchange quote when terms are set April 30.

Tension Seen at ADB Session

Reuters

OSAKA, Japan — Delegates from 46 countries will open the 20th meeting of the Asian Development Bank on Monday amid friction over the bank's role in aiding regional development.

Political tensions also will be evident at the three-day meeting. Taiwan, one of the bank's founders, will boycott the meeting for the second time to protest China's admission last year.

A senior ADB official said that China, which recently became the bank's third-largest shareholder after the United States and Japan, would take one of the 12 seats on the bank's board of governors. The Soviet Union will attend the ADB meeting for the first time.

The official said calls for expanded bank lending were expected from poorer countries in the Asia-Pacific region. The ADB has reduced its role in regional development. Its net transfer of resources, or loan disbursements less repayments by borrowers, fell to \$237 million in 1986 from \$421 million in 1985.

ECUPAR

SOCIÉTÉ D'INVESTISSEMENT À CAPITAL VARIABLE

AVIS AUX ACTIONNAIRES

CONVOCAZIONE

Nous vous prions de bien vouloir assister à l'Assemblée générale ordinaire de Ecupar, Société d'investissement à capital variable, qui sera tenue au siège social, 10, Boulevard Royal, Luxembourg.

Le Mardi 5 mai 1987, à 16 heures

1. Recevoir et adopter le rapport de gestion du Conseil d'Administration pour l'exercice clos au 31 décembre 1986;
2. Recevoir et adopter les rapports du commissaire et de l'expert indépendant pour l'exercice clos au 31 décembre 1986;
3. Recevoir et approuver les comptes annuels arrêtés au 31 décembre 1986;
4. Affectation du bénéfice de la société;
5. Donner quittance aux administrateurs, au commissaire et à l'expert indépendant pour l'accomplissement de leur mandat jusqu'au 31 décembre 1986;
6. Renouveler le mandat des administrateurs, du commissaire et de l'expert indépendant pour un terme d'un an à partir de l'expiration de leur mandat pour le 31 décembre 1987, soit au siège social de la société, soit au siège des établissements suivants:
7. Divers.

Les actionnaires nominatifs inscrits au registre des actionnaires à la date de l'Assemblée générale ordinaire sont convoqués à voter en vertu de leur mandat.

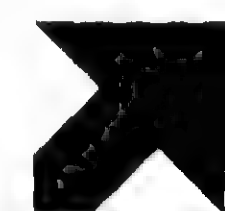
La présente convocation et ses annexes de présentation ont été envoyées à tous les actionnaires inscrits au 20 avril 1987. Des formulaires de présentation sont disponibles sur demande au siège social de la société.

Pour avoir le droit d'assister ou de se faire représenter à cette assemblée, les propriétaires d'actions au porteur doivent avoir déposé pour le 28 avril 1987, leurs titres, soit au siège social de la société, soit au siège des établissements suivants:

— En Belgique: Banque Paribas Belgique S.A., World Trade Center, Boulevard Emile Jaegers, 162, 1210 Bruxelles.
Crédit Commercial de Belgique S.A., Boulevard Pache, 44, 1000 Bruxelles.
COB Banque d'Epargne S.C., Rue de Trèves, 25, Bruxelles.

— Au Luxembourg: Banque Paribas (Luxembourg) S.A., 10, Boulevard Royal, Luxembourg.
Banque Continentale du Luxembourg S.A., Boulevard Emmanuel Servais, 2, Luxembourg.

Pour le Conseil d'Administration, J. PIERSON, Président.



GROSS OPERATING PROFIT UP 20%

Consolidated accounts of the CRÉDIT LYONNAIS GROUP for 1986

millions FFR	1985	1986	% Growth
Total assets	842,734	852,552	+ 1.2
Customer lending	345,757	360,366	+ 4.2
Shareholders' funds	10,693	16,693	+ 52.8
Perpetual subordinated debt	3,500	3,500	— (1)
Provisions	22,419	26,860	+ 19.8
— of which country risk provisions	8,104	12,114	+ (2)
— representing country risk coverage of Shareholders' funds, perpetual subordinated debt and provisions as % of customer lending	22%	33%	+ (3)
Operating income	24,163	26,438	+ 9.4
— of which net commissions	4,306	5,231	+ 21.4
Gross operating profit	7,496	9,041	+ 20.6 (5)
Net allocation to provisions	5,263	6,210	+ 18
— of which country risk	3,287	4,034	+ (2)
Group share of net profit	1,204	1,821	+ 51.3

(1) Increased to 5,500 on 5.1.87.

(2) 1985 figure is for CRÉDIT LYONNAIS unconsolidated.

(3) Percentage increased to 36% at 31.3.87.

(4) Percentage increased to 13.6% on 5.1.87.

(5) Excludes the Group share of the earnings of companies accounted for on an equity basis (156 millions FFR in 1986).

In 1986 the CRÉDIT LYONNAIS GROUP continued to expand in the traditional area of commercial banking by developing its services to both corporate and retail clients. The Group strengthened its financial activities, a sector where it already occupies a leading position in France. It also considerably reinforced its financial resources in 1986, providing a foundation for continuing development.

CRÉDIT LYONNAIS is one of the world's largest banks involved in the full range of banking and financial activities. The bank currently has 2,400 branches in France and maintains 700 locations abroad in the form of branches, subsidiaries, associated banks and representative offices. It serves retail, corporate and institutional clients throughout the world.



CRÉDIT LYONNAIS

For further information on CRÉDIT LYONNAIS, please write to:
Group Communications Department, 19 boulevard des Italiens - 75002 Paris, France.

Rates Rise as Prices Marked Down

By H.J. Maidenberry

New York Times Service
NEW YORK — Interest rates resumed their rise Friday as dealers marked down prices of all Treasury maturities in what proved to be a largely futile effort to attract investors.

Dealers said the bond market was so demoralized that many of them abandoned their usual pre-weekend practice of buying securities to offset inventories they previously sold short as a hedge against price declines.

The bellwether long Treasury bond, the 7 1/2 percent issue of 2016, was offered late in the session at 87

14/32, down 1/2 32, to yield 8.7 percent. At the close of the holiday-shortened previous week, the long bond had been offered at 92 7/32, to yield 8.20 percent.

In Chicago, the spot June Treasury

U.S. CREDIT MARKETS

surety bond futures plunged 1/2 32, to 89 10/32, down sharply from 94 7/32 at the previous week's close. Because of the growing belief that the Federal Reserve is allowing short-term rates to inch up, the discount rate on 90-day Treasury bills soared 32 basis points, to 5.81 percent. The six-month issue rose 19 basis points, to 6.01 percent, and

the rate on the one-year bills gained 16 basis points, to 6.41 percent.

The Fed can only control short-term rates, and the belief that the Fed was "raising" those rates, or firming them just a bit, gained credence after the central bank took

no action Friday to reduce the rates by adding reserves directly or indirectly to the banking system.

Partly as a result, the basic lending rate, the cost of overnight loans, held steady at 6.25 percent.

"It was more of the same today," William V. Sullivan Jr., senior vice president at Dean Witter Reynolds Inc., said Friday, "and I don't know how much more we can take."

"Unless policies are implemented quickly to halt the slide in the dollar, which is the pivotal factor in the bond market today, we could see the long bond yielding 9 percent next week, which would really fuel inflationary expectations."

The market was unnerfed from the opening because the dollar had fallen below 140 yen in Tokyo earlier. The market's gloom deepened, Mr. Sullivan said, when precious metals prices began to climb.

Another factor unsettling the bond market was morning concern about the outcome of the Treasury's next mid-quarter refunding. The terms are to be announced this Wednesday and the auctions of 3-, 10- and 30-year bonds are set for May 4, 5 and 6.

The focus of concern is the degree of participation by Japanese investors, in light of the heightening trade frictions between Washington and Tokyo. Japanese investors have long been important participants in Treasury auctions.

U.S. Consumer Rates

April 24

Source: New York Times

Personal Savings

Year Ending Savings

Money Market Funds

Bank Money Market Accounts

Bank Rate Monthly Index

Home Mortgages, FHLS average

Source: New York Times

These are indicative prices as of April 23, 1987

Shareholders Approve Merger

The Associated Press
HOUSTON — Stockholders of Texas Commerce Bancshares Inc. on Friday approved a merger with Chemical New York Corp. The merger, scheduled for May 1, would create an organization with equity capital of \$4 billion.

OTC Consolidated trading for week ended Friday, April 24

[illegible]

(Confirmed on 12/14/88)

هكذا من الأهل

TRADE: Nations Say They'll Back Pledges With Action

Japan and that he hoped to lift the sanctions "as soon as" Tokyo proves it is complying with the bilateral agreement on computer semiconductors.

The sanctions include 100 per-

"In imposing these tariffs, we were just trying to deal with a particular problem, not start a trade war," Mr. Reagan declared. He said he considered the trade legislation considered by Congress "pro-

In New York, meanwhile, Hidetoshi Ukiwa, the Japanese consul general, asserted Sunday that "the Japanese market is far more open than most Americans think it is."

"I'd rather see the Japanese market described as a difficult one because it is so competitive," he said.

Mr. Gephardt, on another program, said Sunday, "Eighty-five percent of our trade imbalance is

our own fault. We have lots of need to be filled to be competitive but the first step is having a fair trading system." (Reuters, UPI, AP)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2
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WinWise			4183	26%	20	20%	-	+
WMStC			97	7%	7%	7%	-	+
WMicr			9	4%	3%	4%	-	+
WSmPb			8191	13%	11%	(-)	-	+
WSlee	.20	1.3	100	15%	15%	+	+	+
WSRIA			1125	14%	15%	+	+	+
WSmark			4778	21%	21%	21%	+	+
wmoac	.66	2.6	455	21%	21%	21%	-	-
WestnS			1154	19%	15%	16	-	-
WatBo	1.00	2.0	18	20%	50	50	-	-
WatOCo			2391	26%	21%	21%	-	-

Wetru	1.00	2.1	1779	45%	54	5%
Whiclub			274	50%	54	5%
Wicof			1094	24%	2%	2%
Wicord			20	24%	2%	2%
Wily J A	1.10	2.8	81	43	39	-3
William A	1.06	1.9	2764	58%	55%	-1%
Wlwn	4.00	3.0	39	84%	15%	15%
Wtrial			3187	20	18%	1%
Wlwni			591	14%	13%	14%
Wlwns			446	25%	19%	19%
Wlwsf S			1018	14%	13	-1
Wlwn T S	.72	2.4	2944	52%	30%	-1%

WilsonF			11228	15%	9%	10%	-
Wilson			218	2%	1%	2	+
Windner			5152	10%	9%	9%	+
WingWT			1019	4%	5%	6	-
WingSG	1.04	4.7	322	22	22	-	-
WiserO	.40	1.3	560	27%	21	21%	-
WiseB	.35	1.3	2808	13%	11%	11%	-
Wolburn	.39		1639	15%	13%	12%	+
Wolcott	.38		944	12%	11%	11%	-
WolfeT	.16	1.4	252	14%	13%	13%	-
Woodard	.40	4.3	3611	15%	14%	14%	-
WCYS	.058						

[illegible]

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	24
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YlowF s	42	2.0	1718	33%	31	31%	—	15	—
YrkFn s	580	3.0	81	23%	22%	22%	—	—	
Yrkup			431	11%	9%	10%	—	—	
Z									
ZZBasi			15205	17%	14%	16%	—	—	
ZZBasi wi			4169	13%	10%	12%	—	—	
Zahwiel			453	4%	4%	4%	—	—	
ZennNi	80	4.0	1741	21%	20%	20%	—	—	
ZennNi			791	9%	5%	5%	—	—	

Zemzet			55	54%	44%	5	
Zeeuw	520	2,8	90	18%	17%	18%	-
Ziehuif	1,44	3,4	316	43%	40%	40%	-
Zitel			3172	5	5%	3%	
Zivod			482	3%	2%	4%	
Zondm	3		1299	30%	27%	27%	-
Zycood			3176	5%	4%	5	+
Zyso			28	7%	6%	6%	
Zymos			1078	3	2%	2%	-

▲



	Liabilities
Notes at sight maturing within	6,502
Notes for	
Periods of more than	

Accounts and Deposits	6,286
Accounts (incl. deposits within one month)	2,566
Longer periods of more (month)	1,784
	203
	00

man	29
erves	670
contingencies	
tion	1,083
	<u>19,103</u>

	Revenue
Commissions	1,030
	209

Provisions for
Depreciation

International - 26, rue du Marché-aux-
PRINT LU (all departments); Telephone
exchange/Precious Metals/Securities);

41-8034 Zurich, Telephone 59 41 41.

Dresdner Bank AG
Dresdner Bank International

SPORTS

هكمان النحل

Brewers Stay Hot, Beating Orioles 5th Straight Time

Compiled by Our Staff From Dispatches
MILWAUKEE — Rookie B.J. Surhoff hit a three-run home Saturday to cap a five-run first inning as the Milwaukee Brewers beat the Baltimore Orioles, 8-2, for their 15th victory in 16 games this season.

"The ball was up in the zone and I was sitting on it," said the Brewers' top choice in the 1985 free-agent draft. "I didn't jump at the ball, I just got a good piece of it and it went out."

For the Brewers, who began the season with a major league record-tying 13 straight victories, it was their fifth straight defeat of the Orioles, who have lost 6 of their last 7 and 9 of their last 12.

Bill Wegman held Baltimore to five hits for seven innings, while teammate Robin Yount and Glenn Braggs each drove in two runs in the first inning.

Tigers 13, Royals 2: In Detroit, Alan Trammell, Dave Bergman, Darrell Evans and Tom Brookens homered against Kansas City, helping end a five-game losing streak.

Bergman and Billy Bean each had four of the Tigers' 18 hits. Bean, who had two doubles and two singles, tied an American League record for most hits in a nine-inning game debut. Hall of Famer Fred Clarke set the major league record, with five hits in his debut with Louisville of the National League on June 30, 1894. Cecil Travis of the Washington Senators got five hits on May 16, 1933, but that game went 12 innings.

Six other American Leaguers got four hits in debut games last season, with Kirby Puckett of the Twins the last previous to accomplish the feat, on May 8, 1984.

Indians 2, Yankees 1: In Cleveland, Rick Rhoden yielded only four singles but catcher Joel Skinner's throwing error in the fourth allowed the go-ahead run to score and New York lost its second straight, after winning 10 in a row.

White Sox 5, Blue Jays 4: In Chicago, Greg Walker drew a walk off Tom Henke, after two intentional walks loaded the bases with two

out in the ninth, to beat Toronto. Leadoff batter Gary Radus had doubled and was sacrificed to third.

Rangers 2, Red Sox 1: In Arlington, Texas, Jose Cuisinier held Boston to five hits and Jerry Browne tripled, then scored the winning run, in the seventh inning.

Athletics 7, Mariners 3: In Oakland, California, Mark McGwire hit a two-run homer and an RBI single and Stan Javier scored two runs to help beat Seattle.

Twins 8, Angels 7: In Minneapolis, Gary Gaetti's bases-loaded single, a long drive to unmaned center field in the ninth, beat California before a crowd of

SATURDAY BASEBALL

51,717, third-largest in the Twins' 27-year history.

Cardinals 3, Mets 2: In the National League, in New York, Joe Magrane made his major-league debut by limiting the Mets to five hits for six innings and St. Louis tied the score when center fielder Mookie Wilson dropped a fly ball in the seventh. Vince Coleman then singled home the winning run.

Whites 7, Cardinals 6: In St. Louis, the Cardinals' three-run homer in the ninth ended the Braves' six-game losing streak.

Phillies 3, Pirates 2: In Philadelphia, Von Hayes's groundout, Mike Schmidt's single and Lance Parrish's single brought in three runs in the first inning against Pittsburgh. Don Carnan pitched seven innings to become the Phillies' first starter to win this season.

Cubs 9, Expos 4: In Montreal, Jody Davis's two-run single during a four-run sixth helped Chicago win.

Dodgers 4, Padres 2: In Los Angeles, Orel Hershiser pitched a five-hitter against San Diego and Mike Marshall singled twice and scored twice as the Dodgers stretched their winning streak to four. (AP, UPI)



STILL CHAMPION — Colombian Fiel Bassa, right, retained his World Boxing Association flyweight title by surviving three knockdowns before knocking out Dave McAuley of Northern Ireland at 1:45 of the 13th round Saturday night in Belfast. Bassa, 18-0 with 14 KOs, was making his first defense of the title he took from Panamanian Hilario Zapata two months ago; McAuley lost for the first time in 14 professional fights.

SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

FRIDAY'S RESULTS	Box Score
Baltimore 8 Milwaukee 2	Box Score
Chicago 13 Detroit 2	Box Score
Cleveland 10 New York 4	Box Score
Los Angeles 5 Philadelphia 2	Box Score
Minnesota 5 St. Louis 2	Box Score
Pittsburgh 3 San Diego 2	Box Score
San Francisco 4 Texas 2	Box Score
Seattle 5 Toronto 2	Box Score
Washington 7 White Sox 4	Box Score
Yankees 2 Cardinals 1	Box Score
Indians 2 Yankees 1	Box Score
Angels 7 Athletics 3	Box Score
Mariners 3 Athletics 7	Box Score
Red Sox 1 Rangers 2	Box Score
Blue Jays 4 White Sox 5	Box Score
Padres 2 Dodgers 4	Box Score
Expos 4 Cubs 9	Box Score
Montreal 4 Braves 7	Box Score
Pirates 2 Phillies 3	Box Score

NATIONAL LEAGUE

Box Score	Box Score
St. Louis 3 Cardinals 1	Box Score
Philadelphia 2 Los Angeles 5	Box Score
San Diego 2 Pittsburgh 3	Box Score
San Francisco 4 Texas 2	Box Score
Seattle 5 Toronto 2	Box Score
Washington 7 White Sox 4	Box Score
Yankees 2 Cardinals 1	Box Score
Indians 2 Yankees 1	Box Score
Angels 7 Athletics 3	Box Score
Mariners 3 Athletics 7	Box Score
Red Sox 1 Rangers 2	Box Score
Blue Jays 4 White Sox 5	Box Score
Padres 2 Dodgers 4	Box Score
Expos 4 Cubs 9	Box Score
Montreal 4 Braves 7	Box Score
Pirates 2 Phillies 3	Box Score

Basketball

NBA Playoffs

FIRST ROUND

FRIDAY'S RESULTS

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NBA Playoffs

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Oilers Take 3-0 Lead as Fuhr Excels

United Press International

WINNIPEG, Manitoba — Jarri Kurri scored two goals and Esa Tikkanen one — all set up by Wayne Gretzky — to propel the Edmonton Oilers to a 3-0 lead over the Winnipeg Jets in the first round of the Stanley Cup playoffs.

STANLEY CUP PLAYOFFS

OILERS TO 3-0 LEAD

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Reds End Astro Home Streak on Home Run in 11th

Compiled by Our Staff From Dispatches

HOUSTON — The Cincinnati Reds did Friday night in the fifth game this year it took them 18 games to accomplish in 1986: beat the Houston Astros four times.

STANLEY CUP PLAYOFFS

OILERS TO 3-0 LEAD

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FRIDAY BASEBALL

The Mets scored both their runs in the sixth, on one hit. Mookie Wilson walked and was sacrificed to second, with Keith Hernandez singling him home. Greg Mathews then walked Gary Carter and Darrell Strawberry, and Hernandez scored on Kevin McReynolds' infield out, a line drive off Mathews' glove.

STANLEY CUP PLAYOFFS

OILERS TO 3-0 LEAD

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